UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED):
October 5, 2005

OSI SYSTEMS, INC.

(EXACT NAME OF REGISTRANT SPECIFIED IN CHARTER)

CALIFORNIA	000-23125	330238801
(STATE OR OTHER JURISDICTION OF INCORPORATION)	(COMMISSION FILE NUMBER)	(IRS EMPLOYER IDENTIFICATION NO.)

12525 Chadron Avenue, Hawthorne, CA	90250
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (310) 978-0516

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01. Regulation FD Disclosure.

Spacelabs Healthcare, Inc. ("Spacelabs"), a wholly-owned subsidiary of OSI Systems, Inc. (the "Company"), is contemplating a public offering of approximately one-third of its issued and outstanding common stock in the United Kingdom and, in connection therewith, a listing on the AIM of the London Stock Exchange. The offering, if it takes place, will be directed to non-U.S. residents pursuant to Regulation S promulgated under the Securities Act of 1933, as amended (the "Act"). In connection with the proposed public offering, Spacelabs is distributing copies of a draft admission document to potential investors. A copy of the draft admission document is attached hereto as Exhibit 99.1 and incorporated by reference herein in its entirety. The information contained in the draft admission document is not complete and may be changed. A copy of the final admission document will be distributed to investors and filed with the Securities and Exchange Commission as an exhibit to Form 8-K in compliance with Regulation FD upon completion.

The draft admission document does not constitute an offer to sell or the solicitation of an offer to buy shares of common stock of Spacelabs in any jurisdiction in which such offer or solicitation is unlawful. The shares of common stock of Spacelabs have not been and will not be registered under the Act or under any applicable state securities laws of the United States. Accordingly, the shares of common stock may not be offered or sold or subscribed, directly or indirectly, within the United States or to any U.S. Person (as such term is defined in Regulation S promulgated under the Act).

The draft admission document contains "forward looking statements" within the meaning of Section 27A of the Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact included in the draft admission document are forward looking statements and, although the Company and Spacelabs believe that the expectations reflected in such forward looking statements are reasonable, neither the Company nor Spacelabs can give assurance that such expectations will prove to have been correct. Spacelabs' business and financial results are subject to various risks and uncertainties that may cause actual results to differ materially from its expectations. Neither the Company nor Spacelabs intends to provide updated information other than as otherwise required by applicable law. All subsequent written and oral forward looking statements attributable to the Company and Spacelabs, or persons acting on their behalf, are expressly qualified in their entirely by the cautionary statements contained in this paragraph and elsewhere in this report.

The information in this report is being furnished pursuant to Item 7.01 and shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed to be incorporated by reference in any filing under the Act or the Exchange Act. Additionally, the submission of the report on Form 8-K is not an admission of the materiality of any information in this report that is required to be disclosed solely by Regulation FD.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

Exhibit 99.1: Draft Admission Document, dated October 5, 2005.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

OSI SYSTEMS, INC.

Date: October 5, 2005	By:	/s/ Victor Sze Victor Sze Executive Vice President

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EXHIBIT INDEX

Exhibit Number	Description
99.1	Draft Admission Document, dated October 5, 2005

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT ABOUT THE CONTENTS OF THIS DOCUMENT, YOU SHOULD CONSULT A PERSON AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 WHO SPECIALISES IN ADVISING ON THE ACQUISITION OF SHARES AND OTHER SECURITIES. THIS DOCUMENT HAS BEEN DRAWN UP IN ACCORDANCE WITH THE REQUIREMENTS AND COMPRISES AN ADMISSION DOCUMENT FOR THE PURPOSES OF THE AIM RULES.

APPLICATION HAS BEEN MADE FOR THE SHARES OF COMMON STOCK, BOTH ISSUED AND TO BE ISSUED PURSUANT TO THE PLACING, TO BE ADMITTED TO TRADING ON AIM, A MARKET OPERATED BY THE LONDON STOCK EXCHANGE. THE SHARES OF COMMON STOCK ARE NOT DEALT ON ANY OTHER RECOGNISED INVESTMENT EXCHANGE AND NO APPLICATION HAS BEEN OR IS BEING MADE FOR THE SHARES OF COMMON STOCK TO BE ADMITTED TO ANY SUCH EXCHANGE.

AIM IS A MARKET DESIGNED PRIMARILY FOR EMERGING OR SMALLER COMPANIES TO WHICH A HIGHER INVESTMENT RISK TENDS TO BE ATTACHED THAN TO LARGER OR MORE ESTABLISHED COMPANIES. AIM SECURITIES ARE NOT ADMITTED TO THE OFFICIAL LIST OF THE UNITED KINGDOM LISTING AUTHORITY. A PROSPECTIVE INVESTOR SHOULD BE AWARE OF THE RISKS OF INVESTING IN SUCH COMPANIES AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION AND, IF APPROPRIATE, CONSULTATION WITH AN INDEPENDENT FINANCIAL ADVISER. FURTHER IT IS EMPHASISED THAT NO APPLICATION IS BEING MADE FOR THE ADMISSION OF THE SHARES OF COMMON STOCK TO THE OFFICIAL LIST OF THE UNITED KINGDOM LISTING AUTHORITY. NEITHER THE LONDON STOCK EXCHANGE NOR THE UNITED KINGDOM LISTING AUTHORITY HAS ITSELF EXAMINED OR APPROVED THE CONTENTS OF THIS DOCUMENT.

PROSPECTIVE INVESTORS SHOULD READ THE WHOLE TEXT OF THIS DOCUMENT AND SHOULD BE AWARE THAT AN INVESTMENT IN THE COMPANY IS SPECULATIVE AND INVOLVES A HIGHER THAN NORMAL DEGREE OF RISK. THE ATTENTION OF PROSPECTIVE INVESTORS IS DRAWN IN PARTICULAR TO THE SECTION ENTITLED "RISK FACTORS" SET OUT IN PART 2 OF THIS DOCUMENT. ALL STATEMENTS REGARDING THE COMPANY'S BUSINESS, FINANCIAL POSITION AND PROSPECTS SHOULD BE VIEWED IN LIGHT OF THESE RISK FACTORS.

This document does not constitute a prospectus for the purposes of the Prospectus Rules of the Financial Services Authority and has not been delivered to the Registrar of Companies in England and Wales. Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays, Sundays and public holidays) at the offices of Collins Stewart, 9th Floor, 88 Wood Street, London EC2V 7QR from the date of this document for the period of one month from Admission.

The directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. In connection with this document and/or the invitation contained in it, no person is authorised to give any information or make any representation other than as contained in this document.

SPACELABS HEALTHCARE, INC.
(Incorporated under the laws of the State of Delaware, United States of America)

PLACING OF o NEW SHARES OF COMMON STOCK OF US$0.001 EACH
AT o P PER SHARE OF COMMON STOCK (EQUIVALENT TO APPROXIMATELY US$ o PER SHARE OF COMMON STOCK)

ADMISSION TO TRADING ON THE AIM MARKET
NOMINATED ADVISER AND BROKER

COLLINS STEWART LIMITED

AUTHORISED			ISSUED AND FULLY PAID	
AMOUNT	NUMBER		AMOUNT	NUMBER
US$250,000	250,000,000	Shares of Common Stock of US$0.001 each	US$ o	o

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The Placing Shares will, on Admission, rank in full for all dividends or other distributions hereafter declared, made or paid on the Shares of Common Stock and will rank pari passu in all respects with all other Shares of Common Stock which will be in issue on completion of the Placing.

Collins Stewart is regulated in the United Kingdom by the Financial Services Authority and is acting exclusively for the Company and no one else in connection with the Placing and Admission. Collins Stewart will not regard any other person (whether or not a recipient of this document) as its customer or be responsible to any other person for providing the protections afforded to customers of Collins Stewart nor for providing advice in relation to the transactions and arrangements detailed in this document. Collins Stewart is not making any representation or warranty, express or implied, as to the contents of this document.

Collins Stewart has been appointed as nominated adviser and broker to the Company. In accordance with the AIM Rules, Collins Stewart has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, in its opinion and to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with. No liability whatsoever is accepted by Collins Stewart for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

THE SHARES OF COMMON STOCK HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT 1933, AS AMENDED AND MAY NOT BE OFFERED OR SOLD IN,

OR INTO THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S PROMULGATED UNDER THE US SECURITIES ACT). THE SHARES OF COMMON STOCK ARE BEING OFFERED ONLY TO NON-US PERSONS OUTSIDE THE UNITED STATES IN TRANSACTIONS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT, IN RELIANCE ON REGULATION S. PURCHASERS OF THE SHARES OF COMMON STOCK MAY NOT OFFER TO SELL, PLEDGE, OR OTHERWISE TRANSFER THE SHARES OF COMMON STOCK IN THE UNITED STATES OF AMERICA OR TO PERSONS (OTHER THAN DISTRIBUTORS) UNLESS SUCH OFFER, SALE OR PLEDGE OR OTHER TRANSFER IS REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE. HEDGING TRANSACTIONS INVOLVING SHARES OF COMMON STOCK MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE US SECURITIES ACT.

This document contains forward-looking statements, including, without limitation, statements containing the word "believes", "anticipates", "expects" and similar expressions. Such forward looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Part 2 "Risk Factors". Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company and the Directors disclaim any obligation to update any such forward looking statements in this admission document to reflect future events or developments.

Other than in accordance with the Company's obligations under the AIM Rules, the Company undertakes no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company, its directors or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this document.

Information or other statements presented in this document regarding market growth, market size, development of the market and other industry data pertaining to the healthcare markets and the Company's business consists of estimates based on data and reports compiled by industry professionals or organisations and analysts and the Company's knowledge of its sales and markets. The information on the Company's websites do not form part of this document.

In making any investment decision in respect of the Placing, no information or representation should be relied upon in relation to the Placing or in relation to the Placing Shares other than as contained in this document.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SHARES OF COMMON STOCK IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS UNLAWFUL. THE SHARES OF COMMON STOCK HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 OR UNDER THE APPLICABLE STATE SECURITIES LAWS OF THE UNITED STATES OR UNDER THE APPLICABLE SECURITIES LAWS OF CANADA, JAPAN, THE REPUBLIC OF IRELAND OR AUSTRALIA. ACCORDINGLY, SUBJECT TO CERTAIN EXCEPTIONS, THE SHARES OF COMMON STOCK MAY NOT BE OFFERED OR SOLD OR SUBSCRIBED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES, CANADA, JAPAN, THE REPUBLIC OF IRELAND OR AUSTRALIA OR TO OR BY ANY US PERSON (AS SUCH TERM IS DEFINED IN REGULATION S PROMULGATED UNDER THE US SECURITIES ACT) OR ANY NATIONAL, RESIDENT OR CITIZEN OF CANADA, JAPAN, THE REPUBLIC OF IRELAND OR AUSTRALIA OR ANY CORPORATION, PARTNERSHIP OR OTHER ENTITY CREATED OR ORGANISED UNDER THE LAWS THEREOF. THIS DOCUMENT SHOULD NOT BE DISTRIBUTED TO PERSONS WITH ADDRESSES IN THE UNITED STATES, CANADA, JAPAN, THE REPUBLIC OF IRELAND OR AUSTRALIA OR TO ANY CORPORATION, PARTNERSHIP OR OTHER ENTITY CREATED OR ORGANISED UNDER THE LAWS THEREOF, WHERE SUCH DISTRIBUTION MAY LEAD TO BREACH OF ANY LAW OR REGULATORY REQUIREMENTS.

The Company takes responsibility for compiling and extracting, but has not independently verified, market data provided by third parties or industry or general publications and takes no further responsibility for such data.

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CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

DIRECTORS	Sir John Michael Middlecott Banham Non-executive Chairman George MacDonald Kennedy Non-executive Vice Chairman Deepak Chopra Chief Executive Officer Ralph Edward Hunter Chief Financial Officer Nikhil Atul Mehta Vice President Business Development Steve Cary Good Non-executive Director Meyer Luskin Non-executive Director all of: 5150 220th Avenue SE, Issaquah, Washington 98029, United States
COMPANY SECRETARY	Victor Sze
CORPORATE HEADQUARTERS	5150 220th Avenue SE, Issaquah, Washington 98029, United States
NOMINATED ADVISER AND BROKER TO THE COMPANY	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR
REPORTING ACCOUNTANTS TO THE COMPANY	Deloitte & Touche LLP, London, UK Athene Place 66 Shoe Lane London EC4A 3BQ
AUDITORS TO THE COMPANY	Deloitte & Touche LLP, Seattle, US 925 Fourth Avenue Suite 3300 Seattle, Washington 98104-1126 United States
SOLICITORS TO THE COMPANY	Kirkpatrick & Lockhart Nicholson Graham LLP 110 Cannon Street London EC4N 6AR
SOLICITORS TO THE ADVISER AND BROKER	Berwin Leighton Paisner Adelaide House London Bridge London EC4R 9HA
US LEGAL COUNSEL TO THE COMPANY AND TO THE PLACING	Loeb & Loeb LLP 10100 Santa Monica Blvd. Suite 2200 Los Angeles, CA 90067- 416 United States
REGISTRARS	Computershare Investor Services Limited (Channel Islands) P.O. Box. No. 83 Ordnance House 31 Pier Road, St. Helier, Jersey JE4 8PW
BANKERS	Bank of America Corporation 800 5th Avenue Seattle, WA 98104 United States Bank of the West 300 South Grand Avenue Suite 700 Los Angeles, CA 90071 United States

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

"Act"	the Companies Act 1985 of England and Wales (as amended)
"Admission"	the admission of the Shares of Common Stock, issued and to be issued pursuant to the Placing, to trading on AIM becoming effective in accordance with the AIM Rules

"AIM"	a market operated by the London Stock Exchange
"AIM Rules"	the rules for AIM companies and their nominated advisers issued by the London Stock Exchange
"Audit Committee"	the audit committee of the Board
"Blease Medical Holdings"	Blease Medical Holdings Limited, a UK company acquired by OSI in February 2005, and its wholly owned subsidiaries, Blease Medical Equipment Limited and Blease Medical Services Limited, whose activities relate to the manufacture, design, sale and service of anaesthesia delivery systems in the UK and export markets
"Board" or "Directors"	the board of directors of the Company from time to time, including any duly constituted committee thereof
"Business"	the business of the Group
"By-laws"	the by-laws of the Company adopted on o October 2005 as amended from time to time
"Certificate of Incorporation"	the certificate of incorporation of the Company filed with the State of Delaware on 2 August 2005
"Collins Stewart"	Collins Stewart Limited of 9th Floor, 88 Wood Street, London EC2V 7QR
"Combined Code"	the Combined Code on Corporate Governance appended to but not forming part of the Listing Rules
"Company" or "Spacelabs Healthcare"	Spacelabs Healthcare, Inc., a company incorporated in Delaware on 2 August 2005
"CREST"	the system of paperless settlement of trades and the holding of uncertificated shares administered by CRESTCo
"CRESTCo"	CRESTCo Limited, a company incorporated under the laws of England and Wales and the Operator of CREST (as defined in the CREST Regulations)
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
"Dolphin Medical"	Dolphin Medical Inc., an 89 per cent. owned subsidiary of the Company, whose activities relate to the design, manufacture and marketing of pulse oximetry products under its own brand, as well as the brands of other parties
"Enlarged Share Capital"	the Shares of Common Stock in issue immediately following Admission

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"Executive Directors"	the executive directors of the Company, namely, Deepak Chopra, Ralph Hunter and Nikhil Mehta
"FDA"	the US Food and Drug Administration
"Financial Services Authority" or "FSA"	the Financial Services Authority of the UK in its capacity as the competent authority for the purposes of FSMA
"FSMA"	the Financial Services and Markets Act 2000 of England and Wales, as amended
"Governance and Remuneration Committee"	means the governance and remuneration committee of the Board
"Group" or "Spacelabs Healthcare Group"	the Company, its subsidiaries and its branch offices
"International Committee on Harmonisation" or "ICH"	a joint initiative involving both regulators and industry as equal partners in the scientific and technical discussions of the testing procedures which are required to ensure and assess the safety, quality, and efficacy of medicines. Their guidelines are accepted as regulatory guidance in Western Europe, Japan, and the US
"Listing Rules"	the rules of the United Kingdom Listing Authority relating to admission to the Official List
"London Stock Exchange"	London Stock Exchange plc
"Medical Data Services" "Medical Data"	Spacelabs Medical Data, a division of the Company and a provider of or ECG services
"Medical Solutions"	the business division of Spacelabs Healthcare

	comprising pulse oximetry, bone densitometery, ABP and medical data
"Model Code"	the model code on directors dealings in AIM securities as set out in Annex 1 to Listing Rule 9 of the Listing Rules
"NASDAQ"	the National Association of Securities Dealers Automated Quotations System National Market in the US
"New Stock Option Scheme"	the employee stock option scheme [to be adopted by the Company conditionally upon Admission], further details of which can be found in paragraph o of Part 7 of this document
"Nominated Adviser and Broker Agreement"	the agreement dated o October 2005 between the Company and Collins Stewart relating to Collins Stewart acting as nominated adviser and broker to the Company, further details of which are set out in Part 7 of this document
"Non-executive Directors"	the non-executive directors of the Company, namely, Sir John Banham, George Kennedy, Steve Good and Meyer Luskin
"Official List"	the official list of the United Kingdom Listing Authority
"Old Stock Scheme"	the 2004 Spacelabs Medical Stock Option Plan
"OSI" or "OSI Systems"	OSI Systems, Inc. a company incorporated in Delaware and whose stock is traded on NASDAQ under the symbol OSIS
"Osteometer MediTech, Inc."	Osteometer MediTech, Inc., a wholly owned subsidiary of Spacelabs Healthcare, Inc. whose activities relate to bone densitometery devices

"Placing"	the conditional placing of the Placing Shares pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated o October 2005 between Collins Stewart, the Company, OSI and the Directors, relating to the Placing, further details of which are set out in paragraph o of Part 7 of this document
"Placing Price"	o p per Placing Share (equivalent to approximately US$ o)
"Placing Shares"	the o new Shares of Common Stock to be issued by the Company pursuant to the Placing
"Prospectus Rules"	the rules made for the purposes of Part VI of FSMA in relation to offers of securities to the public and admission of securities to trading on a regulated market
"Regulation S"	regulation S promulgated under the US Securities Act
"Rule 144"	rule 144 promulgated under the US Securities Act
"Shareholders"	holders of Shares of Common Stock
"Shares of Common Stock"	shares of Common Stock of US$0.001 each in the capital of the Company
"Spacelabs Medical"	Spacelabs Medical, Inc., a subsidiary of the Company
"Stock Option Schemes"	the Old Stock Scheme and the New Stock Option Scheme
"Subsidiary"	as defined in sections 736 and 736A of the Act
"UDT Sensors"	UDT Sensors Inc., a company incorporated in California and wholly owned subsidiary of OSI
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"US" or "United States"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
"US persons"	has the meaning ascribed to such term by Regulation S
"US Securities Act"	the United States Securities Act of 1933, as amended

All references to times in this document are to UK BST unless otherwise stated. References to the singular shall include references to the plural, where applicable and vice versa.

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GLOSSARY

The following terms apply throughout this document, unless the context otherwise requires:

ambulatory	designed for or available to patients who are not bedridden
ABP	ambulatory blood pressure monitoring system
arrhythmia	alteration in rhythm of the heartbeat either in time or force
bone densitometry	a simple non-invasive procedure to screen for osteoporosis or loss of bone mineral density
densitometer	apparatus for measuring the optical density of bone
ECG, EKG or electrocardiogram	measures electrical current generated by the heart as it depolarises and repolarises; generates a graphic representation of depolarisation and repolarisation; most commonly used test to measure the measurement of electrophysiologic activity of the heart; used as a diagnostic tool and to monitor critically ill patients
Multi-parameter	equipment capable of monitoring multiple diagnostic metrics on a simultaneous basis
OEM	original equipment manufacturer (a company that manufactures products for third parties who resell (with or without modification) to customers)
osteoporosis	a condition characterised by a decrease in bone mass with decreased density and enlargement of bone spaces resulting in bone fragility
osteopenia	a condition resulting in progressive loss of bone density
oximeter	a device for measuring the oxygen saturation of arterial blood
perioperative	relating to, occurring in, or being the period around the time of a surgical operation
pulse oximeter	an oximeter that measures the oxygen saturation of arterial blood by passing a beam of red and infrared light through a pulsating capillary bed, the ratio of red to infrared transmission varying with the oxygen saturation of the blood; because it responds only to pulsatile objects, it does not detect nonpulsating objects like skin and venous blood
telemetry	use of battery operated monitoring equipment with radio links to monitor patient status at a central station without wires
vapouriser	a device for converting water or a medicated liquid into a vapour for inhalation
ventilation	in respiratory physiology, the process of exchange of air between the lungs and the ambient air. Pulmonary ventilation (usually measured in litres per minute) refers to the total exchange, whereas alveolar ventilation refers to the effective ventilation of the alveoli (small cells containing air in the lungs) in which gas exchange with the blood takes place
white coat hypertension	a temporary elevation in a patient's blood pressure that is caused by being in a medical setting (such as a physician's office) and that is usually due to anxiety on the part of the patient; also called white coat effect

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PLACING STATISTICS(1)

Placing Price per Placing Share	o p (US$ o)
Number of Shares of Common Stock in issue prior to the Placing	o
Number of Placing Shares	o
Number of Shares of Common Stock in issue following the Placing and Admission	o
Estimated net proceeds of the Placing(2)	(pounds) o million (US$ o million)
Proportion of enlarged issued Shares of Common Stock subject to the Placing	o per cent.
Market capitalisation at the Placing Price on Admission	(pounds) o million (US$ o million)

(1) The statistics assume full subscription of the Placing Shares under the Placing.

(2) Net proceeds of the Placing are after deduction of the expenses of the Placing.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	o October 2005
Admission and commencement of dealings in the Shares of Common Stock on AIM	o October 2005
Despatch of definitive Common Stock certificates	o October 2005

References to "dollars", "US$" and "US dollars" are to United States dollars and all references to " (pounds)" are to British pounds sterling. Unless otherwise stated, this document translates figures in US dollars into pounds sterling, or vice versa, at the exchange rate of (pounds)1 equals US$ o , being the closing spot exchange rate on o October 2005, the latest practicable date prior to the publication of this document.

PART 1 -- INFORMATION ON THE GROUP

BACKGROUND

Since 1988 OSI Systems has built a healthcare equipment, services and supplies business based on the manufacture and sale of patient monitoring devices and anaesthesia systems. This business represents a significant proportion of OSI's business. The OSI board has been reviewing strategic options for the development of the healthcare business.

The board of OSI has determined that the best method to continue the development of the healthcare business is for it to operate as an independent entity. Accordingly, OSI's board has decided to create a separate company, Spacelabs Healthcare, to operate the healthcare divisions with an independent UK based Chairman and Vice Chairman and to seek an AIM trading facility for this company.

The annual revenues of OSI's healthcare businesses have grown from approximately US$11 million in the fiscal year ended 30 June 2003, to approximately US$195.7 million in the fiscal year ended 30 June 2005, primarily as a result of the acquisitions of Spacelabs Medical and Blease Medical Holdings. During Q4 to 30 June 2005 OSI reported revenues for its healthcare businesses of US$51.1 million (US$45.4 million Q4 to 30 June 2004). For the fiscal year ended 30 June 2005 the healthcare companies contributed US$195.73 million (50.82 per cent. of total OSI revenues) and contributed an operating income of US$7.02 million against a total OSI operating loss of US$6.98 million.

INTRODUCTION

Spacelabs Healthcare is an international developer, manufacturer and distributor of medical equipment including the pioneering development of patient monitoring solutions, anaesthesia delivery and ventilation systems, pulse oximeters and sensors and bone densitometers sold to hospitals, clinics and physicians' offices. Additionally, the Group provides ECG laboratory services to pharmaceutical companies undertaking clinical trials, whereby patient ECG data are recorded, analysed, tabulated and interpreted.

The Group employs approximately 1,050 personnel in its 14 offices in the UK, Canada, France, Germany, Finland, Singapore, the US and elsewhere. The Group conducts its manufacturing operations and research and development in India, the UK and the US.

The Group has established international brand names in both medical devices and medical services such as "Spacelabs", "Blease" and "Dolphin". It has sold approximately 117,000 patient monitors in the last 12 years and 4,500 anaesthesia delivery systems in the last 10 years. The Directors intend to leverage this global installed base to provide solutions that integrate patient monitors, anaesthesia delivery systems and pulse oximetry products and to offer related equipment, software and services as well as to capture the replacement cycle business of existing customers.

HISTORY

Spacelabs Healthcare was, prior to Admission, a wholly owned subsidiary of OSI Systems, a US-based NASDAQ listed company. OSI Systems has been involved in the healthcare business since 1987, primarily as a supplier to OEM's. The Business has grown principally through the acquisition of 6 companies and technologies since its inception to have now become a provider of end products in patient monitoring, anaesthesia, pulse oximetry and medical services.

In 1998, OSI acquired Osteometer MediTech A/S, a Danish manufacturer of diagnostic scanners used for the early detection of symptoms of osteoporosis for US$7.9 million. In August 1999, the Danish operations of Osteometer were relocated to Hawthorne, California (US) where they continue to operate.

Between 1998 and 2001, OSI acquired businesses relating to pulse oximetry and infrared-based patient monitoring subsystems. The pulse oximetry and infrared-based patient monitoring subsystem business is currently operated by Dolphin Medical.

In 2003, OSI entered into a stock purchase and option agreement with ConMed Corporation (a NASDAQ listed company: CNMD), whereby ConMed Corporation purchased a 9 per cent. interest in Dolphin Medical for US$2 million and OSI granted to ConMed an option to acquire for a purchase price equal to 2 times revenue in the year preceding the option exercise, the remainder of the Dolphin Medical business for a price not less than US$30 million in the event that the option is exercised between 1 January 2004 to 31 December 2007 or not less than US$40 million in the event that the option is exercised between 1 January 2008 and the option expiry date (31 December 2008). In addition, ConMed Corporation and Dolphin Medical entered into a distribution agreement in 2003, which provides ConMed Corporation with distribution rights for certain Dolphin Medical products within certain defined territories, including North America.

In October 2003, GE Healthcare was required to sell Spacelabs Medical (as part of its acquisition of Finland based Instrumentarium Corporation) to comply with competition and anti-trust measures imposed by the European Commission and US Department of Justice. OSI sought to purchase Spacelabs Medical in part, to open up the Spacelabs Medical installed base to Dolphin pulse oximetry products. In March 2004, OSI completed the acquisition of Spacelabs Medical (for approximately US$47.9 million, net of cash acquired and including acquisition costs), from Instrumentarium Corporation.

Spacelabs Medical, based in Issaquah, Washington, is an international manufacturer and distributor of patient monitoring systems for critical care and anaesthesia, wired and wireless networks, clinical information connectivity solutions, ambulatory blood pressure monitors, and medical data services. Spacelabs Medical was founded in 1958 in collaboration with the US Air Force (NASA) to develop systems to monitor the vital signs of astronauts in space. The European Commission required that GE Healthcare as part of the divestiture of Spacelabs Medical, enter into an agreement under which Spacelabs Medical would have the right to distribute certain GE Healthcare anaesthesia products within the European Union until 2008. The requirement was imposed to ensure that Spacelabs Medical could offer medical monitoring and anaesthesia products as a single suite in the perioperative market, as was the practice of other manufacturers. Furthermore, the European Commission approved the purchase of Spacelabs Medical, in view of OSI's strategic plans to enhance Spacelabs Medical's competitive position and expand its activities in Europe through product development and further acquisitions.

In February 2005, OSI completed the acquisition of Blease Medical Holdings Limited and its subsidiaries, Blease Medical Equipment and Blease Medical Services, a UK manufacturer, supplier and distributor of anaesthetic and ventilator equipment. The business of Blease Medical Holdings was established in circa 1946 and was acquired by OSI for an initial payment of (pounds)4.5 million, plus future payments of a maximum of [(pounds)6.25] million, to be satisfied by the issue of loan notes, to be determined by reference to the achievement of specified operating milestones for each of the accounting periods ending March 2006, 2007 and 2008 (being the final period for any payment). Blease Medical Equipment is one of a number of well established companies in the business of anaesthesia delivery systems and ventilators. Blease Medical Equipment sells its systems in the UK, Middle East, Asia and Africa through distributors.

Following the acquisition of Blease, the directors of OSI believed that OSI had built a healthcare equipment, service and supplies business that could effectively leverage development, manufacturing and distribution of its products. On 2 August 2005, Spacelabs Healthcare was formed as a newly incorporated Delaware (US) company, for the purpose of consolidating all of the healthcare companies previously held by OSI into a new healthcare group and to seek admission to trading on AIM for the holding company of the new group.

The Company entered into an agreement with OSI and UDT Sensors on o 2005 for the acquisition by the Company of the healthcare companies previously owned by OSI and UDT Sensors. It has not been possible prior to publication of this document to complete all of the formalities required to register the transfers of the shares of each relevant company. Therefore the Company will be only the beneficial, and not the legal owner, of the shares in certain of these companies until such formalities are completed. Further details of the companies concerned are set out in paragraph 2.4 of Part 7.

OSI Systems will continue to operate its remaining businesses (the sale of security and inspection systems and opto-electronic components), and will retain its NASDAQ listing. On the basis that the Placing Shares are fully subscribed following Admission, Spacelabs Healthcare will be 65 per cent. owned by OSI and its subsidiary UDT Sensors. Spacelabs Healthcare intends to commence trading on o October 2005.

PRODUCTS AND SERVICES

The Group designs, manufactures and markets its products internationally to end users under several brand names. The Group's patient monitoring systems, network and connectivity solutions, ambulatory blood pressure monitors and Medical Data Services are sold under the "Spacelabs Medical (TM) " brand name. The Group's anaesthesia systems and components are sold under the "Blease (Trade Mark) " brand names. The Group's arterial haemoglobin saturation monitors and sensors, including hand-held and wireless monitoring tools, are sold under the "Spacelabs Medical" and "Dolphin (TM) " brand names and its peripheral bone densitometers and ultrasound bone sonometers are sold under the "Osteometer (TM) " brand name. As brand and distribution channels further integrate, the Directors anticipate that the Group will increasingly be able to leverage its research and development teams, manufacturing capabilities and supply chain relationships.

The Group offers "Ultraview SL (TM) " patient monitors for applications in the hospital, including neonatal, paediatric and adult critical and emergency care, as well as anaesthesia and sub-acute care. Spacelabs

Healthcare's patient monitoring systems comprise monitors and central nurse stations connected wirelessly or through hospital networks, as well as stand alone monitors where the patient data can be transported physically from one monitor to another as the patient is moved. This enables hospital staff to access patient data where and when it is required. In addition, the Group's products are "open architecture" in that they are designed to interact with hospital information systems acquired from other vendors. WinDNA (Registered Trademark) , based on Citrix (R) application server technology, is a feature of many of these products allowing clinicians to view and control Microsoft Windows applications on the patient monitor's display thereby eliminating the need for separate terminals in the patient's room. Attending nurses can check laboratory results and other reports, enter orders, review protocols, and do charting at the patient's bedside. Spacelabs Medical's monitors are designed to facilitate ease of use. Specifically, inputs can be made using a mouse, keyboard, and touchscreen.

For electrocardiograph monitoring or multi-parameter monitoring of ambulatory patients, Spacelabs Medical's offers a digital telemetry system. The multi-parameter transmitter also integrates with the Spacelabs Medical "Ultralite SL (TM) " ambulatory blood pressure monitor for the transmission of non-invasive blood pressure values to a central station or a multi-disclosure and information system.

The Group sells anaesthesia machines, ventilators and monitors under a license from GE Healthcare. It also designs and manufactures its own proprietary "Focus (TM) ," "Genius (TM) " and "Sirius (TM) " anaesthesia delivery systems sold under the "Blease" brand name. These provide flexible anaesthesia solutions for most operating room environments, anaesthesia induction areas, day surgery units, maternity suites, magnetic resonance imaging facilities and other facilities where the administration of anaesthesia is required. These anaesthesia delivery systems are designed to work in conjunction with patient monitoring systems, including those sold under the "Spacelabs Medical" brand name. Its "Datum (TM) " anaesthesia vapourisers and its line of anaesthesia ventilators are also designed to be compatible with the anaesthesia delivery systems of several other manufacturers.

The Group develops next-generation digital pulse oximetry instruments and compatible pulse oximetry sensors under the "Dolphin ONE (TM) " product line. "Dolphin ONE (TM) " products include the "Voyager (TM) ," "Dolphin 2100 (TM) " and "Dolphin 2150 (TM) ". The Voyager (TM) is a pocket PC-based pulse oximetry product used in this market. The Group also manufactures and distributes, under the "Dolphin 2000/3000 (Trade Mark) " product line, sensors that are compatible with products made by other manufacturers of pulse oximetry products. The Group sells "TruLink (TM) " pulse oximetry sensors, manufactured by Dolphin Medical, under the "Spacelabs Medical" brand.

The medical data services of the Group include centralised ECG laboratory services. These services include the collection, analysis and interpretation of cardiac safety data in Phase I-IV clinical trials for drugs. These services are provided to pharmaceutical companies and clinical research organisations ("CROs"). The Medical Data services division's customers include major pharmaceutical companies as well as biotech companies, universities, CROs and device manufacturers.

The Group is also a provider of diagnostic ambulatory blood pressure (ABP) monitors. ABP monitoring is a routine procedure in many European countries and is increasingly being used in the United States. Hypertension affects approximately 50 million Americans and is particularly prevalent in the US Medicare (the US Federal Healthcare Insurance programme) system population. Many physicians are using ambulatory blood pressure monitoring to detect "white coat" hypertension, a condition in which patients experience elevated blood pressure in the doctor's office but not in their daily lives. It is estimated that in the US as many as 20 per cent. of the persons diagnosed with hypertension based on blood pressure measurements taken in their physicians' offices are not actually hypertensive. ABP monitoring helps improve diagnostic accuracy and minimise the associated treatment costs. ABP monitoring is also used to adjust drug therapies for hypertensive patients.

The Group manufactures and distributes the "DTX-200 (TM) " and "DexaCare G4 (TM) " dual energy x-ray forearm densitometers. These products are used to diagnose osteoporosis as well as to provide follow-up bone density measurements. The Group also manufactures and distributes the "DTU-One (Trade Mark)," a calcaneus (heel bone) ultrasound bone sonometer.

The Group sells a broad line of supplies and accessories as an adjunct to its medical device sales. These supplies include patient electrodes, specialty graph paper, sensors and connecting lead wires. In most cases, these products are obtained from OEMs and are manufactured to Spacelabs Healthcare's specifications.

The following table sets out the key medical products currently offered by Spacelabs Healthcare:

MODEL (TECHNOLOGY)	APPLICATIONS	POTENTIAL AREAS FOR INSTALLATIONS
Intesys(TM) Clinical Suite ICS(TM)	Solutions to make patient data available anytime to those locations where required	All hospital care areas
Maternal Obstetrical Monitor	Monitoring of mother and foetus, as well as newborn	Labour and delivery areas within hospitals
Ultraview SL(TM) 2400	Patient monitoring at the bedside and in transport	All hospital care areas
Ultraview SL(TM) 2700	Patient monitoring at the bedside	All hospital care areas
Ultraview SL(TM) 2800	High-end patient monitoring at the bedside	All hospital care areas
Ultraview SL(TM) 3800	Centralised, real-time monitoring surveillance of patients	Central nurses' stations within hospitals
Ultracare(TM) ADS 180*	Anaesthesia machine/ventilator with low performance ventilator	Operating rooms in public and private hospitals
Ultracare(TM) ADS 190*	Anaesthesia machine/ventilator with high performance ventilator	Operating rooms in public hospitals
Ultracare(TM) SLP 100*	Patient monitoring	Operating rooms and post anaesthesia care units in hospitals
TruLink(TM)	Pulse oximetry sensors	All hospital care areas
Datum(TM) Vapouriser	Vaporisation of inhalational anaesthesia	Ambulatory surgery centres Operating rooms
Focus(TM) Anaesthesia Delivery System	Anaesthesia machine/ventilator for delivery of inhalational anaesthesia	Ambulatory surgery centres Operating rooms
Genius(TM) MRI Anaesthesia Delivery System	Anaesthesia machine/ventilator for delivery of inhalational anaesthesia	Anaesthesia induction areas within hospitals MRI scanning facilities
Sirius(TM) Anaesthesia Delivery System	Anaesthesia machine/ventilator for delivery of inhalational anaesthesia	Ambulatory surgery centres Operating rooms
Model 2100/2150 Pulse Oximeters	Vital signs monitoring of critically ill patients	Critical care units within hospitals
Voyager(TM) Pulse Oximeter	Spot check assessment of critically ill patients	Critical care units within hospitals
Model 2000/3000 Pulse Oximetry Sensors	Sensors that are compatible with products made by other manufacturers of pulse oximetry products	Recurring sales for use with pulse oximeters and monitors
DexaCare(R) G4 DEXA Bone Densitometer	Detection, diagnosis, and follow up of treatment of osteopenia and osteoporosis	Physician offices Integrated practice groups Medical clinics Small hospitals
DTX-200 (TM) DEXA Bone Densitometer	Detection, diagnosis, and follow up of treatment of osteopenia and osteoporosis	Physician offices Integrated practice groups Medical clinics Small hospitals
DTU-One (TM) Ultrasound Scanner	Detection of osteopenia and osteoporosis	Physician offices Integrated practice groups Medical clinics Small hospitals

* UltracareTM products are GE Healthcare OEM products and can be sold by the Group only in the EEA

CUSTOMERS

The Group's medical monitoring, anaesthesia systems and pulse oximetry products are manufactured and distributed internationally for use in critical care, emergency and perioperative areas within hospitals. In addition, the Group's ABP monitors, pulse oximetry products and bone densitometers are sold to clinics and physicians' offices. The Group's medical data business provides ECG laboratory services for drugs under clinical trials.

The following is a representative list of customers, (some of whom have been customers in excess of twenty years) and/or installations that have purchased the Group's patient monitoring and anaesthesia products:

EUROPEAN	UNITED STATES	ASIA/PACIFIC	OTHER REGIONS
Diaconessenhuis Meppel, Netherlands	Albany Medical Center, Albany, NY	Beijing People Hospital, China	AMS Turkey, Turkey
Evangelisches Krankenhaus Bethesda, Germany	Condell Medical Center, Liberty, IL	Shanghai Public Health Centre, China	Al Faisaliah, Saudi Arabia
Klinik St. Josef, Belgium	Duke Univ. Medical Center, Durham, NC	Chi Mei Hospital, Taiwan	

LKW Villach, Austria	Harborview Medical Center, Seattle, WA	Amrita Institute of Medical Sciences & Research Centre, India
St. Elisabeth Ziekenhuis, Netherlands	Lakeland Regional Medical Center, Lakeland, FL	John Hunter Hospital, Australia
Ulleval Sjukhus, Norway	Methodist Hospital, Houston, TX	Prince of Wales Hospital, Australia,
Universitatsspital Zurich, Switzerland,	Northside Hospital, Atlanta, GA	St Vincent's Hospital, Australia
The Royal London Hospital, East Mount Street, UK	Spartanburg Reg. Healthcare System, Spartanburg, SC	
Norfolk & Norwich University, Hospitals, UK	Tulane Univ. Hospital and Clinic, New Orleans, LA	
	Women & Infants Hospital, Providence, RI	

MARKET OPPORTUNITIES

Many factors such as a nursing shortage in both the US and Europe, stricter government requirements affecting the staffing and accountability of healthcare providers, and shrinking reimbursements from health insurance organisations are forcing healthcare providers to do more with less, i.e. improve patient safety and economic efficiency with fewer resources. The Group designs, manufactures and markets products that address these economic forces by helping hospitals reduce costs whilst maintaining or improving the quality of care their physicians and nurses are able to deliver.

PATIENT MONITORING

The worldwide hospital based patient monitoring market is estimated by Frost & Sullivan, an independent research organisation, to be in excess of US$2.3 billion (including ambulatory telemetry) and is growing at approximately 4 per cent. annually. This market can be divided into two broad product segments: multi-parameter patient monitors and patient worn ambulatory telemetry monitoring. The multi-parameter monitoring segment comprises a variety of care environments including emergency departments, operating and recovery rooms, intensive care units and transport monitoring. The Group was a pioneer in patient worn ambulatory telemetry monitoring which is growing more rapidly than the broader patient monitoring market, especially in the US where telemetry monitoring alone is worth over US$300 million and is growing in excess of 15 per cent. per year. Telemetry monitoring is used in intensive care units, many cardiac care units and some emergency departments where patients often need to be ambulatory and, therefore, detached from their monitors.

The major vendors in this market include Phillips, GE Healthcare, Spacelabs Medical, Datascope, Nihon Koden, Welch Allyn and a number of smaller companies.

ANAESTHESIA

The market for anaesthesia delivery products in the US and Europe is estimated by Frost & Sullivan to be worth in excess of US$700 million. This market is categorised by the Executive Directors into three major segments.

In the Executive Directors' view, the largest market segment is comprised of full system producers who sell complete anaesthesia systems marketing their total package products globally. This segment is currently dominated by Dragerwerk AG and GE Healthcare. Blease Medical Equipment Limited is a full system producer, selling its anaesthesia systems under the brand names "Focus (TM) " and "Sirius (TM) ". OEM anaesthesia products distributed by Blease Medical Holdings in the European Union are marketed under the "Ultracare (TM) " brand name.

The second segment is comprised of local producers or assemblers of anaesthesia systems, with anaesthesia delivery systems being supplied not as a single solution but assembled from components manufactured by other companies. Blease Medical Equipment Limited is a supplier of components to this market segment.

The third segment is the supply of anaesthesia vapourisers to pharmaceutical companies to support their promotion of anaesthetic agents; such supply is typically to pharmaceutical companies which have provided vapourisers to their customers, often on a gratis basis, to promote the introduction of anaesthetic agents to hospitals. Blease Medical Equipment Limited sells products to such pharmaceutical companies.

Blease Medical Holdings's principal competitor in the UK in the second and third market segments referred to above is Penlon Limited.

PULSE OXIMETRY

The pulse oximetry market comprises two principal components:

- the sale of Pulse Oximetry devices, which is a market estimated by Frost & Sullivan to be approximately US$350 million in the US; and
- the sale of Pulse Oximetry sensors which is a market estimated by Frost & Sullivan and the Executive Directors to be worth approximately US$429

million in the US.

The US market is estimated by the Executive Directors to represent between 60-70 per cent. of the world-wide sensor market in value and is growing at a rate of approximately 6 per cent. in the US.

Nellcor (a division of Tyco International, Inc.) is regarded by the Executive Directors to be the largest company in this field and its sales of oximetry sensors represent approximately 80 per cent. of the US market. Key markets for pulse oximetry sensors and devices include, but are not limited to, the US, the UK, France, Italy, Germany, and Japan.

AMBULATORY BLOOD PRESSURE

The market for Spacelabs Healthcare's ABP products is presently centred on drug company co-marketing programmes, CROs, independent and government sponsored clinical research studies, university hospitals and medical teaching centres, specialists in the treatment of hypertension and private office-based physicians from various medical specialties including cardiology, family/general practice, internal medicine, endocrinology, nephrology, obstetrics, and paediatrics. The Directors believe that growth opportunities exist within the government, managed care, disease state management, sleep management, and employer health sectors.

Based upon the Company's internal estimates, the total US and international markets for ABP products is estimated at US$22 million and is evenly split between the US and international markets. In 2004 in the US, Medicare raised the ABP reimbursement rate charged to physicians from US$45 to US$75 per ABP procedure, involving screening for white coat hypertension. Other insurers reimbursement rates range from US$75 to US$250 for ambulatory blood pressure monitoring. Physicians now have a greater incentive to prescribe procedures that require ABP monitors. The Executive Directors believe that the Group has sold approximately 35,000 units into the global market in the last 12 years.

US unit sales of ABP systems have grown over the past four years with sales to drug marketing programmes, CROs and large government grant research projects providing growth opportunities.

MEDICAL DATA SERVICES

The market for cardiovascular testing services is estimated by the Executive Directors to have grown from US$90 million to US$238 million per year, from 2000 to 2003. There are 8,000 to 10,000 clinical trials

conducted each year, with over 12 million electrocardiograms performed during the course of clinical trials, and historically only 10 per cent. of those ECGs have been interpreted through core laboratories such as those operated by Spacelabs Medical Data.

Certain US-based equity analysts estimate the market to be between US$850 million and US$1.3 billion with estimated growth rates to be between 30 and 50 per cent. annually until end December 2006. The expected growth results from the use of centralised digital ECG processing, instead of traditional paper based methods. In addition, the anticipated market growth is as a result of US Food and Drug Administration regulations and initiatives that require data to be collected, analysed, interpreted, and reported in a prescribed electronic format, as well as the standards being created by the International Committee on Harmonisation. The FDA recommendations include requirements for all new drugs to undergo ECG testing, and that the data must be acquired digitally and interpreted by a cardiologist operating from a central location.

BONE DENSITOMETRY

The global market size for bone densitometry equipment is approximately US$180-200 million annually, with the US market accounting for approximately 70 per cent. of this market.

The market can be split into axial (also called full-body) and peripheral (which scans arms, hands and feet) bone densitometers. The axial market size is approximately US$126-140 million, and the peripheral market is US$54-60 million. The Group only supplies the peripheral market.

Many western populations are aging. As a population ages it becomes increasingly susceptible to osteoporosis; the market size is therefore expected to grow. The current market growth rate is estimated to be 5-6 per cent. annually.

The Executive Directors consider that there is an on going clinical debate as to which technology should be used for diagnosis of osteoporosis, and to what extent peripheral densitometry should be used for follow-up scans to determine efficacy of treatment. This debate has had an impact on the adoption rate of peripheral densitometers. Due to the slow adoption of the peripheral densitometry technology by medical insurers in the US and Western Europe, market sizes have been curtailed.

SERVICE SUPPLIES AND ACCESSORIES

The Group sells service maintenance contracts for most of its equipment and also provides a replacement parts service. The Group derived approximately 12 per cent. of revenue at 30 June 2005 from this activity. In addition, the Board believes that a substantial market exists for disposable supplies such as patient electrodes, specialty graph paper, sensors and connecting lead wires that are used with medical equipment.

RESEARCH AND DEVELOPMENT

The Directors are committed to continuing the Group's history of technical innovation by continuing to invest in research and development. The Group's patient monitoring, pulse oximetry and bone densitometry solutions are designed and engineered at facilities in Issaquah, Washington and in Hawthorne, California (US). Such systems include mechanical, electrical, digital electronic and software subsystems, all of which are designed by the Group. The Group's anaesthesia products are designed and engineered in Issaquah, Washington (US) and in Chesham, Buckinghamshire (UK). Additionally, the Company employs design and development engineers in Hyderabad, India to support its efforts in the US and UK.

CORPORATE STRATEGY

The Group's primary objective is to be a leading provider of innovative, reliable and cost-optimised patient care solutions, through a focused development of open standards, connectivity and networking to provide `on demand' care to help care providers improve their quality of care and patient safety.

Key elements of this strategy include:

IMPROVING EXISTING PATIENT CARE TECHNOLOGIES -- In March 2004, the Group's activities were significantly enhanced through the acquisition of Spacelabs Medical, a manufacturer and distributor of patient monitoring and clinical information solutions for use primarily in hospitals. Spacelabs Medical develops patient monitoring systems and solutions aimed at lowering false alarm rates, thereby reducing time demands on physicians and nurses, improving patient identification accuracy, thereby reducing physician and nursing errors and providing them with more time to care for their patients. In connection with these efforts, Spacelabs Medical is also pursuing cable-free medical sensors and other wireless solutions that will allow for medical monitoring, patient data, transmission, alarm notification, and other information to be instantly transmitted at any time to those locations where the data will be needed. The Group also continues to improve and develop patient monitors and accessories that utilise pulse oximetry technologies. Overall, the Group's efforts at improving existing medical diagnostic technologies will continue to concentrate on the development of devices that make it possible for institutions from large hospitals to small clinics and physicians' offices to obtain accurate, precise, reliable and cost-effective results.

ACQUIRING NEW COMPANIES AND TECHNOLOGIES -- The Group has acquired new companies and technologies which the Executive Directors believed would provide opportunities to reduce manufacturing costs, enhance research and development efforts, open new sales and service channels or otherwise leverage existing products against complementary systems and markets. For example, the Group's strategy is to undertake demand-flow manufacturing techniques developed by Spacelabs Medical in its manufacturing locations worldwide. It is also planning research and development projects aimed at developing perioperative solutions that combine "Spacelabs Medical (TM) " monitoring systems with "Blease (TM) " anaesthesia machines. Since April 2005, "Dolphin Medical (Trade Mark) " manufactured pulse oximetry sensors are being sold by Spacelabs Medical with its patient monitors.

CAPITALISING ON GLOBAL PRESENCE -- The Group operates from locations in North America, Europe and Asia and also has a distribution network in Latin America and the Middle East. The Executive Directors believe that the Group's international operations provide important strategic and operational benefits. Firstly, international manufacturing facilities allow the Business to take advantage of competitive labour rates in order to be a low cost producer. Secondly, the Directors believe that having a local presence in major markets strengthens the Business's ability to provide a more customer-oriented, localised service and provides direct access to growing global markets and to its existing international customer base. In future, the Group intends to further develop its manufacturing and sales capabilities to maintain and enhance the benefits of the Business's international presence.

SELECTIVELY ENTERING NEW MARKETS -- The Group intends to target new markets that complement its capabilities in the design, development, distribution and manufacture of existing medical solutions. The Directors believe that the Group can utilise its existing integrated design and manufacturing infrastructure to capture greater margins and to build a larger presence in those new medical device markets that present attractive opportunities. The Directors believe that this strategy can be achieved through internal growth and through acquisitions of and partnerships with other medical device companies.

In addition to the strategies outlined above, it is intended that future revenue growth will be derived from the continuation of the Group's strategy to capture the replacement business from its installed base of patient monitors, the sale of pulse oximetry sensors to this installed base, cross-selling anaesthesia and monitoring solutions and by introducing anaesthesia products into the North American and Japanese markets.

FUTURE TRADING BETWEEN OSI SYSTEMS & SPACELABS HEALTHCARE

Following Admission, OSI Systems and UDT Sensors will own 65 per cent. of the Shares of Common Stock of Spacelabs Healthcare. Although Spacelabs Healthcare will be an OSI subsidiary, and there will be some overlap of management and the sharing of IT, certain leasehold premises and head office costs, Spacelabs Healthcare will be run as a free-standing discrete entity.

A relationship agreement has been entered into governing the future trading relationship between Spacelabs Healthcare and OSI, details of which are provided in paragraph 9.1(ix) of Part 7 of this document, requiring the parties to trade on an arm's length basis.

In addition, a master intercompany agreement has been entered into between Spacelabs Healthcare and OSI which includes terms in respect of potential manufacturing proposals between the companies which are likely to involve the provision of electronic and opto-electronic components, sensor cables, microchips and printed circuit boards. Certain head office and administrative functions will also be performed by OSI on behalf of Spacelabs Healthcare under this agreement. This agreement also governs the terms of the loan from OSI to Spacelabs. Further details of the agreement are provided in paragraph 9.1(ii) of Part 7 of this document.

MANUFACTURING

The Company has manufacturing facilities in Hawthorne, (California) Issaquah (Washington), Chesham (UK) and Hyderabad (India). Much of the Group's high volume, labour intensive manufacturing and assembly is performed either in India or by OSI's subsidiaries in Malaysia and California. Since most of the Company's customers currently are located in Asia, Europe and the United States, its ability to assemble products in these markets and provide follow-on service from offices located in these regions is an important component of the Company's overall corporate strategy.

DISTRIBUTION

The Group markets and sells its medical monitoring and anaesthesia systems using a direct sales force and has marketing staff of approximately 240 personnel and service personnel of approximately 260. The Group has direct marketing and sales organisations in the US, UK, Canada, France and Germany. In addition, the Group has a network of independent distributors in approximately 90 countries, managed from offices located in the US, UK, Finland, France, Germany, Italy, Greece, Singapore and Australia. It also supports these sales and customer service efforts by providing software updates and upgrades, and service training for customers' biomedical staff and distributors.

The Directors consider the Group's maintenance service operations to be an important element of its business. The Group provides a variety of service and support options for its customers globally, ranging from complete on-site repair and maintenance service and telephone support, to part exchange programmes for customers with the internal expertise to perform a portion of their own service needs.

COMPETITION

In the markets in which the Group operates competition is based on a variety of factors including product performance, functionality, value, breadth of sales and service organisation. The Executive Directors believe that the Group's principal competitors in the market for patient monitoring, pulse oximetry and anaesthesia products are Philips Medical Systems, GE Medical Systems, Dragerwerk AG, Datascope Corp., Nihon Kohden Corporation, Nellcor, a division of Tyco International, Inc. and Massimo Corporation. Key competitors of the Medical Data business include eResearch, Inc., Biomedical Systems and Covance Inc.

The Executive Directors believe that the Group's patient monitoring products are easier to use than the products of many of its competitors as they offer a consistent user interface throughout many product lines. Furthermore, the monitors of Spacelabs Medical are backward/forward compatible, meaning that new Spacelabs Medical's monitors can interface with existing Spacelabs Medical's monitor models, thus offering investment protection to the Group's customers. Whilst some of the Company's competitors are beginning to introduce portal technology, allowing remote access to data from the bedside monitor, central station or other point of care, the Executive Directors believe that the Company's version is superior in bringing instant access to labs, radiology and charting at the point of care. The Company's strategy is to protect its installed base of systems, through improving technology and providing superior customer service, thus protecting customer investments and capturing replacement sales.

PULSE OXIMETRY

Nellcor is regarded by the Executive Directors to be the major company in this field, producing oximetry sensors representing approximately 80 per cent. of the US market. Key markets for pulse oximetry sensors and devices include, but are not limited to the US, UK, France, Italy, Germany, and Japan.

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DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

SIR JOHN MICHAEL MIDDLECOTT BANHAM, (aged 65), Chairman, (Non-executive)

John is a successful businessman and a former management consultant who has held senior business and public sector appointments in the UK for over 20 years. John recently retired as chairman of Whitbread PLC and is currently chairman of ECI Ventures Group, a leading provider of venture capital for mid-market management buyouts and of Cyclacel Limited, a cancer biopharmaceutical company. He is also the senior non-executive director of AMVESCAP PLC, and a non-executive director of Merchants Trust PLC.

John was the chairman of Geest plc from August 2002 to March 2005 when the business was acquired by Bakkav|f-r, and the chairman of Kingfisher PLC from February 1996 to December 2001, when he stood down following a successful sale/de-merger of the group's general merchandise business and property business. He was chairman of Tarmac PLC from February 1994 until March 2000 when the Group was acquired by Anglo American PLC in an agreed bid following the de-merger of Carillion PLC. John was the first chairman of the Local Government

Commission for England from 1992-1995 and was founding chairman for Westcountry Television Limited (now part of ITV plc). John was director general of the Confederation of British Industry (CBI) from 1987 to 1992. He was the first controller (chief executive) of the Audit Commission when it was established in 1983. The Audit Commission was set up to monitor efficiency and seek better value for money in local government. Under John's leadership it identified improvements worth over (pounds)2 billion a year and launched a number of reforms. He held that position until 1987 when he left to become director-general of the CBI. In 1969 John joined the management consultants, McKinsey & Co, becoming a principal in 1975 and director in 1980. During this period he was responsible for major consultancy assignments in the health sectors in the UK, North America and continental Europe.

GEORGE MACDONALD KENNEDY, CBE (aged 65), Vice Chairman, (Non-executive)

George Kennedy holds a number of senior and non-executive roles that combine to provide an insight into business operations worldwide. Following a career in the healthcare industry with Smiths Group plc (formerly Smiths Industries) from 1973 to 2000, George was appointed to the board of Smiths Group in 1983, later becoming executive director and chairman of the medical division. In 1997 he was awarded a CBE for services to the UK healthcare industry and exports. George also holds other directorships including, Chairman of Eschmann Holdings Limited, a family business manufacturing high quality operating tables, electrosurgery, sterilisation and suction equipment; deputy chairman of Vernalis, a UK biotechnology company with priority developments in acute migraine, stroke and Parkinson's disease: non-executive chairman of Carclo PLC a specialist in technical plastics for the automotive, optical medical and teletronics industries; non-executive director of Isotron PLC, Europe's foremost sterilisation services provider; chairman of E2V Technologies PLC, a leading supplier of industrial electronics; chairman of the Trade Advisory Group for Africa and the Middle East, Department of Trade and Industry and president of the Association of British Healthcare Industries. George is also the chairman of Inprint Labels Ltd., a global specialist booklet and labelling business.

DEEPAK CHOPRA, (aged 54), Chief Executive Officer

Deepak Chopra is the founder of OSI and has served as president, chief executive officer and a director of that company since OSI's inception in May 1987. He has served as OSI's chairman since February 1992. Deepak also serves as the president and chief executive officer of the Company's major subsidiaries. From 1976 to 1979 and from 1980 to 1987, Deepak held various positions with ILC Technology, Inc. ("ILC"), a publicly-held manufacturer of lighting products, including serving as chairman chief executive officer, president and chief operating officer of its United Detector Technology division. In 1990, OSI acquired certain assets of ILC's United Detector Technology division. Deepak has also held various positions with Intel Corporation, TRW Semiconductors and RCA Semiconductors. Deepak holds a Bachelor of Science degree in Electronics and a Master of Science degree in Semiconductor Electronics.

RALPH EDWARD HUNTER, (aged 42), Chief Financial Officer

Ralph Hunter brings extensive financial and operational experience to Spacelabs Healthcare, where he is responsible for company-wide financial management, analysis and strategic planning. Ralph is a Chartered Accountant and member of the ICAEW. Ralph began his career in public accounting, working with Coopers & Lybrand in both the UK and the US before moving to the healthcare industry with Schering-Plough

Pharmaceuticals in New Jersey. He joined Datex-Ohmeda in 1997 and played a key role in the acquisition and subsequent restructuring of the Spacelabs Medical business before ultimately joining the Spacelabs Healthcare management team.

NIKHIL ATUL MEHTA, (aged 48), Vice President Business Development

Nikhil Mehta joined OSI in 2002, and has been actively involved in several acquisitions made by OSI since then. Prior to joining OSI, Nikhil was the chief financial officer of Advanced Tissue Sciences, Inc., a NASDAQ listed bio-technology company. His previous experience include managing director, strategy and business development for Citibank Global Capital Markets; and vice president/director, North American finance and also vice president finance, for global document services at Xerox Corporation where he spent over 15 years. He has a bachelor of commerce from Bombay University and an MBA from The Wharton School, University of Pennsylvania.

STEVE CARY GOOD, (aged 63), Non-executive Director

Steve has served as a director of OSI since September 1987. He is a senior partner in the accounting firm of Good, Swartz, Brown & Berns, which he founded in 1976, and has been active in consulting and advisory services for businesses in various sectors including the manufacturing, garment, medical services and real estate development industries. He has extensive experience in acquisitions, merger transactions and business valuations. Steve founded California United Bancorp and served as its chairman between 1982 and 1992. In 1997, Steve was appointed as a director of Arden Realty Group, Inc., a publicly--held real estate investment trust (listed on the New York Stock Exchange: ARI). Since October 1997, Steve has also served as a director of Big Dogs, Inc., a corporation listed on NASDAQ: BDOG). Steve holds a bachelor of science degree in business administration from the University of California, Los Angeles and attended its graduate school of business. Steve is an active member of the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants and the Nevada State Board of Accountancy. In addition to his professional career, Steve is very active in the Los Angeles community and has devoted a significant amount of his time to charitable endeavours.

MEYER LUSKIN, (aged 80), Non-executive Director

Meyer has served as a director of OSI since February 1990. Since 1961, Meyer has served as the president, chief executive officer and chairman of Scope Industries Inc., which is engaged in the business of recycling and processing food waste products into animal feed. Meyer has also served as a director of Scope Industries Inc. since 1958 and currently serves as a director of Stamet, Inc., an industrial solid pump manufacturer, Chromagen, Inc., a biotechnology company, Alerion Biomedical, Inc. a biotechnology company, and Myricom, Inc. a computer and network infrastructure company. Meyer holds a bachelor of arts degree from the University of California, Los Angeles, and a MBA from Stanford University.

SENIOR MANAGEMENT

DAVID TILLEY, (aged 55), President Spacelabs Medical

David is in charge of the Group's patient monitoring business and is also responsible for developing and implementing manufacturing, supply chain and distribution channel integration across the Group. He has a strong background in finance as well as experience in manufacturing, operations and supply chain management. David worked previously within Datex-Ohmeda (a division of Instrumentarium Corp., acquired by General Electric in 2003) and its predecessor companies for more than two decades.

JIM ROOP, (aged 50), President Medical Solutions

Jim is president of four companies within the Group and is in charge of the Medical Solutions business. Jim served as vice president and general manager of US monitoring sales for Spacelabs Medical and, following the acquisition by Instrumentarium Corp., as vice president of corporate accounts for Instrumentarium and Datex-Ohmeda. In his current capacity, Jim is also responsible for identifying synergies amongst the companies he heads in California and Washington.

NICHOLAS ONG, (aged 40), President Blease Medical Holdings

Nicholas is in charge of the Group's anaesthesia business. Prior to this appointment, Nicholas was responsible for Spacelabs Medical's strategic marketing and business development. He was the president of Asia-Pacific for Datex-Ohmeda before joining Spacelabs Medical, and during the GE Healthcare's acquisition of Instrumentarium, led the integration team for Asia-Pacific. Nicholas has 16 years experience

in the diagnostics and medical equipment industry and is a member of the Singapore Institute of Management and the Singapore Institute of International Affairs. In his current capacity, Nicholas is also responsible for identifying synergies between Spacelabs Medical and Blease operations.

ROY HAYS, (aged 54), Chief Technology Officer

Roy is responsible for the acquisition and development of technology that supports business outcomes, productivity and growth. Part of his role is to ensure that the technology visions of all the Group are aligned where appropriate and that all Group companies employ best practices. In addition, Roy has direct responsibility for Spacelabs Medical's regulatory and quality affairs. Roy has more than 25 years experience in the medical products field, including 18 years at Spacelabs Medical, where he served as Vice President of Product Development.

JOSEPH DAVIN, (aged 50), President Global Sales and Marketing, Spacelabs Medical

Joe brings strong leadership experience to his role as president of global sales and marketing for the Group. He currently directs Spacelabs Medical's worldwide marketing, sales, service, and customer support teams and was previously president, Spacelabs Medical North America, where his focus was on strengthening US and Canadian operations. This organisation sells Spacelabs Medical, Blease and Dolphin Medical products. Joe helped facilitate the acquisition of Spacelabs Medical by OSI and was also responsible for the earlier incorporation of Spacelabs Medical's North American sales channels by Instrumentarium. Joe originally joined Instrumentarium in 1992 as the Datex US vice president of North American sales. He later served as general manager of the Datex-Ohmeda US Critical and emergency care business.

VICTOR SZE, (aged 38) Company Secretary and General Counsel

Victor Sze was appointed General Counsel, vice president of corporate affairs of OSI in March, 2002. In November, 2002, Victor was appointed Secretary of the Company and in 2003 he was named executive vice president of OSI. From 1999 through November 2001, Victor served as in-house counsel to Interplay Entertainment Corp., a developer and worldwide publisher of interactive entertainment software, holding the title of Director of Corporate Affairs. Prior to joining Interplay Entertainment Corp., Victor practiced law with the firm of Wolf, Rifkin & Shapiro in Los Angeles. Victor holds a bachelors' degree in economics from the University of California, Los Angeles and a juris doctorate from Loyola Law School. Victor is general counsel and company secretary of Spacelabs Healthcare.

KARITA SALOKANGAS, (aged 35) Associate General Counsel

Karita is responsible for Spacelabs Healthcare's legal affairs worldwide. She also acts as the associate general counsel for OSI. Her experienced team consists of two US-based legal counsels and three assistants. In addition to Spacelabs Medical, her team covers legal affairs for the other Spacelabs Healthcare companies, as well as supporting other OSI businesses jointly with the OSI corporate legal team. Karita was formerly legal counsel, responsible for international legal matters for Instrumentarium (Finland) from December 1996 to May 1998 and was formerly Director of Legal Affairs for Datex-Ohmeda worldwide. Karita holds a Master of Laws from Helsinki University Law School, Finland.

EMPLOYEES

As at 30 June 2005, the Group employed approximately 1,050 full-time employees, including those of the Directors appointed at such time. As the business develops, the Directors intend to recruit additional staff with appropriate experience.

EMPLOYEE STOCK OPTION SCHEMES

The Directors recognise the vital role of its staff in contributing to the overall success of the Group and the importance of the Group's ability to incentivise and motivate its employees. Therefore, the Directors believe that employees should be given the opportunity to participate and take a financial interest in the success of the Group.

Details of stock options to be granted to the Executive Directors and a summary of the New Stock Option Scheme are set out in paragraph 5 of Part 7 of this document.

CORPORATE GOVERNANCE

The Directors support high standards of corporate governance and confirm that following Admission the Company intends, where practicable, having regard to the current stage of development of the Company, to

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comply with the main principles of the Combined Code. The Company will adopt and operate a Common Stock dealing code for Directors and senior employees on substantially the same terms as the Model Code.

The Board has established an Audit Committee and a Governance and Governance and Remuneration Committee with formally delegated duties and responsibilities. Upon Admission, Sir John Banham, George Kennedy and Meyer Luskin will be members of the Governance and Remuneration Committee. Sir John Banham, George Kennedy and Steve Good will be members of the Audit Committee. Sir John Banham will chair the Audit Committee and George Kennedy will chair the Governance and Remuneration Committee.

The Audit Committee will normally meet three times a year and has responsibility for, amongst other things, planning and reviewing the Group's annual report and accounts and interim statements and involve, where appropriate, the Group's auditors. The Committee will focus particularly on compliance with legal requirements and accounting standards. It is also responsible for ensuring that an effective system of internal controls is maintained. The ultimate responsibility for reviewing and approving the annual accounts and interim statement remains with the Board.

The Governance and Remuneration Committee, which will meet three times a year, has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the Executive Directors. It also operates the Stock Option Schemes and sets performance conditions which must be satisfied before options can be exercised. It will also have responsibility for reviewing the size and composition of the Board and appointment of replacement and/or additional directors and making appropriate recommendations to the Board.

The Combined Code states that the board of directors of a UK public company should include a balance of executive and non-executive directors. Smaller UK public companies (being those that are below the FTSE 350 throughout the year immediately prior to the reporting year) should have at least two independent non-executive directors and one of those independent non-executive directors shall be appointed the senior non-executive director, which, on Admission, will be Sir John Banham. The Combined Code further provides that a majority of non-executive directors should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Directors are satisfied that the Group will, on Admission, comply with the requirements of the Combined Code so far as possible having regard to the size and current state of development of the Group.

FINANCIAL INFORMATION ON THE GROUP

The table below sets out a summary financial information for the Group for the year ended 30 June 2005. This information has been extracted from the audited financial information set out in Part 3 of this document.

Prospective investors should read the whole of this document and should not rely solely on this summary.

SUMMARY STATEMENT OF OPERATIONS

	US$
Revenues	195.7 million
Gross Profit	89.7 million
Income from operations	7.1 million
Net Income	4.6 million

The Group generated revenues of US$195.7 million for the fiscal year ended 30 June 2005. This included revenues of Blease Medical Holdings from 8 February 2005, the date of the acquisition of Blease Medical Holdings Ltd by OSI. Pre-tax income was US$7.1 million, with net income of US$4.6 million.

CURRENT TRADING AND PROSPECTS

Since 30 June 2005, Spacelabs Healthcare has continued to trade in line with the Executive Directors' expectations. In particular, patient monitoring has experienced a sales growth of 11 per cent. for fiscal year ended 30 June 2005.

The Group uses a management tool which tracks the "sales funnel" of the patient monitoring business, i.e. tracks sales opportunities for equipment sales through to actual sales. This sales funnel has grown from

US$471 million (US$446 million in North America) in April 2004, the month following OSI's acquisition of Spacelabs Medical, to US$837 million (US$665 million in North America) in July 2005 and to US$964 million (US$775 million in North America) in September 2005.

The newly introduced Ultraview SLTM series of monitors launched in the fiscal year ended 30 June 2005 have gross margins of approximately 5 percentage points higher than the products they have replaced. These new products have gained market acceptance in the US and represented over 90 per cent. of the Group's US patient monitoring sales in the month of June 2005. The Board believes that the Group's gross margins will benefit as these products gain international market acceptance.

The Board is confident that the Admission will allow the Group to position itself in the UK in a market that will allow it to increase awareness of the Group and its activities in the UK and Europe and will facilitate acquisition opportunities.

PROPERTIES

The Group's manufacturing facilities are based in Issaquah, Washington US, Chesham UK and Hyderabad India, all of which are leased facilities. In addition, the Group leases sales offices in several countries. The Group shares office and manufacturing space with OSI in Hawthorne California, US. Further details of the Group's properties are set out in paragraph 15 of Part 7 of this document.

DIVIDEND POLICY

The Executive Directors anticipate that they will retain any available funds for the benefit of the Group in the operation of the Business. The Board does not currently intend to pay any cash dividends for the foreseeable future. OSI's current bank credit facilities restrict the payment of cash dividends by OSI, certain of its subsidiaries, the Company, and certain of its subsidiaries, the Company and certain members of the Group and future borrowing may contain similar restrictions.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Placing, if fully subscribed, will raise approximately (pounds) o million (US$ o million), net of expenses, for the Company.

The Executive Directors believe that the Admission and raising of new funds through AIM is an important step in achieving the Group's objective in building a leading healthcare business in the growing healthcare market. (pounds)o (US$ o million) of the proceeds of the Placing will initially be used to repay part of Spacelabs Healthcare's debt to OSI Systems. At 30 June 2005 the debt owed by the Group to OSI amounted in aggregate to approximately (pounds) o million (US$57 million) and additionally, to provide capital for organic growth, research and development and future acquisitions for the benefit of Spacelabs Healthcare. The terms on which OSI Systems provides loan facilities to the Company are set out in the master intercompany agreement summarised in paragraph 9.1(ii) of Part 7 of this document.

The Directors believe that Admission will provide the Group with a currency, in the form of its Shares of Common Stock, additional to cash, for any potential future acquisitions and will also allow the Group to incentivise its employees through its Stock Option Schemes, which will assist the Group in continuing to attract, retain and motivate high calibre employees.

BANK CREDIT FACILITY

Certain of the Group's assets are included with those of OSI as collateral under a credit facility from the Bank of the West.

The Company has access to working capital through inter-company funding from OSI, including funds available under the credit facility from Bank of the West. The Group intends to seek an independent credit facility as soon as practicably possible after the Placing and Admission. Details of this sharing arrangement are included in the master intercompany agreement between Spacelabs Healthcare and OSI Systems set out in paragraph 9.1(ii) of Part 7 of this document.

DETAILS OF THE PLACING

The Company is issuing [up to] o Placing Shares by way of the Placing to institutional investors to raise approximately (pounds)35 million (US$[65] million), net of expenses (assuming full subscription).

The Placing Shares, if fully subscribed, will represent approximately 35 per cent. of the Enlarged Share Capital of the Company.

Details of the Placing Agreement are set out in paragraph 9.1(viii) of Part 7 of this document.

On Admission, the Placing Shares will be issued credited as fully paid and will, on issue, rank pari passu with the Shares of Common Stock already in issue, including the right to receive, in full, all dividends and other distributions thereafter declared, made or paid.

ADMISSION

It is expected that Admission will become effective on o October 2005 and that definitive stock certificates in respect of the Placing Shares will be despatched on or before o 2005.

LOCK-IN/ORDERLY MARKET ARRANGEMENTS

The Directors, OSI Systems and UDT Sensors have entered into lock-in agreements with Collins Stewart in respect of o Shares of Common Stock (representing 65 per cent. of the issued Shares of Common Stock following the Placing) preventing such shareholders, subject to certain limited exceptions, making a disposal of Shares of Common Stock held by them (or entering into a transaction with the same economic effect) during the period of 12 months after Admission save with the prior written consent of the Company and Collins Stewart. After this time they will be required for a further period of 12 months to trade in the Shares of Common Stock only through Collins Stewart (or the Company's then broker) for the purpose of preserving an orderly market in the Shares of Common Stock.

US TRANSFER RESTRICTIONS

The Shares of Common Stock will not be registered under the US Securities Act or qualify under any US state securities laws and, thus, may not be offered or sold in the United States or to, or for the account or benefit of, any US persons as defined in Regulation S. Accordingly, the issue of the Placing Shares is being made in reliance on Regulation S to non-US persons in off-shore transactions. The Placing Shares are subject to the restrictions on transfer set out in paragraph 17 of Part 7 of this document including a restriction against hedging transactions involving the Placing Shares unless conducted in compliance with the US Securities Act, and share certificates will be endorsed with reference to such transfer restrictions. Regulation S prohibits the resale or re-distribution of the Placing Shares into the US or to a US Person (as defined therein) for a period of one year from the date of issue. Persons subscribing for Placing Shares and subsequent purchasers of Shares of Common Stock will be deemed to have agreed to the transfer restrictions set out in paragraph 17 of Part 7 of this document and to have agreed not to effect transfers of the Shares of Common Stock except to transferees who also agree to the restrictions, where the restrictions are still applicable.

Further details of the transfer restrictions applying to the Shares of Common Stock are set out in paragraph 17 of Part 7 of this document.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the Uncertificated Securities Regulations 2001.

Due to the restrictions imposed by the US Securities Act explained above, the Shares of Common Stock will be settled in certificated form and will not be settled through CREST. Accordingly, the Company has not applied for the Shares of Common Stock to be admitted to CREST. The Directors intend to apply for the Shares of Common Stock to be settled in CREST once the transfer restrictions set out above cease to remain in effect.

TAXATION

Further information regarding United Kingdom and US taxation is set out in paragraph 13 of Part 7 of this document. If you are in any doubt as to your tax position, you should contact your professional adviser immediately.

TAKEOVER OFFERS (KNOWN AS TENDER OFFERS IN THE US)

US Federal securities laws regulate certain takeover activities. The Williams Act regulates tender offers. The Williams Act is intended to provide shareholders with adequate notice of the sale or purchase of significant

amounts of a company's capital stock, including a battle for control of a corporation in order to allow shareholders the opportunity to make an informed decision.

The Williams Act requires a person or persons in the process of acquiring a substantial number of equity securities of a company to notify the target company and the SEC that they have made such acquisitions, and to notify their intentions to control the target company. Under these provisions, one person or persons acquiring outstanding shares of a class of securities registered under the Securities Act who thereby become the owner of more of the outstanding shares, must file a schedule giving details of this acquisition with the SEC and transmit a copy to the target company within 10 days of triggering the purchase.

In general, before the commencement of a tender offer subject to Section 14(d) of the Williams Act, the bidder must file a tender offer statement with the SEC which must identify the bidder, the source of the bidder's funds and purpose in making the offer, and any securities of the target company previously acquired by the bidder, among other information. This information must also be disclosed to the target company's shareholders. The rules permit a tender offer to be made without any prior announcement or notice.

The above is qualified in its entirety by Section 14(d) of the Williams Act and the rules and regulations promulgated under it which prescribe specific filing and disclosure requirements and exceptions and exemptions therefrom. This is a complex area of the law with many requirements and exclusions depending upon the nature of the tender offer and the facts and circumstances involved. Depending upon the size of the transaction and nature of the parties involved, tender offers may also trigger compliance with the US federal anti-trust statutes known as the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

The By-laws contain provisions which incorporate certain of the rules and arrangements set out in the UK City Code on Takeovers and Mergers further details of which are summarised in paragraph 4.2 of Part 7.

FURTHER INFORMATION

Your attention is drawn to the further information set out in Parts 2 to 7 of this document.

PART 2 -- RISK FACTORS

An investment in the Placing Shares is subject to a number of risks. The investment offered in this document may not be suitable for all of its recipients. An investment in the Group is only suitable for investors who are capable of evaluating the risks and merits of such investments and who have sufficient resources to bear any loss which might result from such investment. The risks described below are not exhaustive and may not be the only risks faced by the Group. Additional risks which are not presently known or are currently deemed immaterial may also impair the Group's business, financial condition or results of operations and as a result its prospects could suffer and in which case investors could lose all or part of their investment. The Executive Directors consider the following risks to be the most significant for potential investors in the Company.

ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO THE GROUP OR TO THE DIRECTORS OR THAT THE DIRECTORS CURRENTLY DEEM IMMATERIAL MAY ALSO IMPAIR THE GROUP'S BUSINESS OPERATIONS. THE BUSINESS FINANCIAL CONDITION OR RESULT OF OPERATIONS OF THE GROUP COULD BE MATERIALLY AND ADVERSELY AFFECTED BY ANY OF THESE RISKS. THE TRADING PRICE OF THE SHARES OF COMMON STOCK COULD DECLINE DUE TO ANY OF THESE RISKS AND INVESTORS COULD LOSE ALL OR PART OF THEIR INVESTMENT.

AIM

The value of the Shares of Common Stock may go down as well as up. Furthermore, an investment in a share that is traded on AIM is likely to carry a higher risk than an investment in a share listed on the Official List.

The market price of the Shares of Common Stock may not reflect the underlying value of the assets of the Group. The market in the Shares of Common Stock may be illiquid or subject to sudden or large fluctuations and it may be difficult for investors to sell their Shares of Common Stock and they may receive less than the amount originally invested.

STOCK VOLATILITY AND LIQUIDITY

The stock price of AIM companies can be highly volatile. The price at which the Shares of Common Stock will be quoted and the price which investors may realise for their Shares of Common Stock will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect the quoted healthcare and pharmaceutical sector, or quoted companies generally. These factors could include the performance of the Group's research and development programmes, large purchases or sales of the Shares of Common Stock, legislative changes in the healthcare environment and general economic conditions.

Admission should not be taken as implying that there will be a liquid market for the Shares of Common Stock. It may be more difficult for an investor to realise his investment on AIM than to realise an investment in a company whose Shares of Common Stock are quoted on the Official List. The Shares of Common Stock will not be traded in uncertificated form through CREST. Trading shares in certificated form is inevitably a slower and more cumbersome process.

Fluctuations in operating results may cause the Company's stock price to decline.

Given the nature of the markets in which the Company participates, the Executive Directors cannot reliably predict future revenues and profitability. Changes in competitive, market and economic conditions may cause the Group to adjust its operations. A high proportion of the Business's costs are fixed, due in part to significant sales, research and development, and manufacturing costs. Thus, relatively small changes in revenue disproportionately affect the Group's operating results. Factors that may affect the Group's operating results and the market price of the Common Stock include:

- demand for and market acceptance of the Group's products;
- competitive pressures resulting in lower selling prices;
- adverse changes in the level of economic activity in regions in which the Group operates;
- adverse changes in industries, such as semiconductors and electronics, on which the Business is particularly dependent;
- changes in the portions of the Group's revenue represented by various products and customers;
- delays or problems in the introduction of new products;
- the announcement or introduction of new products, services or technological innovations by the Group's competitors;

- variations in the Group's product mix;

- the timing and amount of expenditure in anticipation of future sales;
- increased costs of raw materials or supplies; and
- changes in the volume or timing of product orders.

THE COMPANY FACES AGGRESSIVE COMPETITION IN MANY AREAS OF ITS BUSINESS ACTIVITIES. IF THE BUSINESS DOES NOT COMPETE EFFECTIVELY, IT WILL BE HARMED.

The markets in which the Group operates are highly competitive and characterised by evolving customer needs and rapid technological change. The Group competes with a number of other manufacturers, some of which have significantly greater financial, technical and marketing resources than Spacelabs Healthcare Group. In addition, these competitors may have the ability to respond more quickly to new or emerging technologies, adapt more quickly to changes in customer requirements, have stronger customer relationships, have greater name recognition, and may devote greater resources to the development, promotion and sale of their products than the Group.

In the markets in which the Group operates, competition is also based on a variety of factors including product performance, functionality, value, and breadth of sales and service organisation. The Executive Directors believe that the principal competitors are Philips Medical Systems, GE Medical Systems, Dragerwerk AG, Datascope Corp., Nihon Kohden Corporation and Nellcor, a division of Tyco International, Inc. Competition could result in price reductions, reduced margins, and loss of market share. Although the Company has established relationships with a number of large hospitals, there can be no assurance that Spacelabs Healthcare Group will be able to successfully compete for their business in the future with existing competitors or with new entrants.

IF THE BUSINESS DOES NOT INTRODUCE NEW PRODUCTS IN A TIMELY MANNER, ITS PRODUCTS COULD BECOME OBSOLETE AND THE OPERATING RESULTS WOULD SUFFER.

The Company sells many of its products in industries characterised by rapid technological changes, frequent new product and service introductions and evolving industry standards. Without the timely introduction of new products and enhancements, the Group's products could become technologically obsolete over time, in which case the Business's revenue and operating results would suffer. The success of new product offerings will depend upon several factors, including the Group's ability to:

- accurately anticipate customer needs;
- innovate and develop new technologies and applications;
- successfully commercialise new technologies in a timely manner;
- price the Group's products competitively and manufacture and deliver products in sufficient volumes and on time; and
- differentiate the Group's offerings from competitors' offerings.

The Business therefore must anticipate industry trends and develop products in advance of the commercialisation of customers' products. In developing any new product, the Business may be required to make a substantial investment before determining the commercial viability of a new product. If the Group fails to accurately foresee customers' needs and future activities, it may invest heavily in research and development of products that do not lead to significant revenues.

THE GROUP'S ACQUISITION AND ALLIANCE ACTIVITIES COULD DISRUPT THE ONGOING BUSINESS.

The Directors intend to continue to make investments in companies, products, and technologies, either through acquisitions, investments or alliances. Acquisitions and alliance activities often involve risks, including: (i) difficulty in assimilating the acquired operations and employees; (ii) difficulty in managing product co-development activities with the Group's alliance partners; (iii) retaining the key employees of the acquired operation; (iv) disruption of the ongoing business; (v) inability to successfully integrate acquired technologies and operations into the Group's businesses and maintain uniform standards, controls, policies, and procedures; and (vi) lacking the experience necessary to enter into new product or technology markets. In addition, from time to time, the Group's competitors acquire or enter into exclusive arrangements with

companies with whom the Group transacts business or may transact business in the future. Reductions in the number of partners with whom the Group may do business in a particular context may reduce the Group's ability to enter into critical alliances on attractive terms or at all, and the termination of an existing alliance by a business partner may disrupt the Group's operations.

One of the strategies of the Directors is to supplement internal growth by acquiring businesses and technologies that complement or augment existing product lines. This growth has placed, and may continue to place, significant demands on management, working capital, and financial resources. The Business may be unable to identify or complete promising acquisitions for many reasons, including:

- competition among buyers;
- the need for regulatory approvals, including antitrust approvals; and
- the high valuations of businesses.

Some of the businesses that may be acquired may be marginally profitable or unprofitable. For these acquired businesses to achieve acceptable levels of profitability, the Board must improve its management, operations, products and market penetration. The Board may not be successful in this regard and may encounter other unexpected difficulties in integrating acquired businesses into existing operations.

FINANCIAL REPORTING

The Group reviews internal controls over financial reporting procedures from time to time. However, because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatments. Also, internal controls may not be adequate at any particular time because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Accordingly, internal controls over financial reporting cannot provide absolute assurance of achieving financial reporting objectives.

MANUFACTURING AND MATERIALS MANAGEMENT

The Group has manufacturing facilities for its medical systems in Hawthorne, California and Issaquah, Washington (US) and in Chesham (UK) and Hyderabad (India). Much of the Business's high volume, labour intensive manufacturing and assembly is performed either in India or by OSI's subsidiary in Malaysia. Since most of the Group's customers currently are located in Asia, Europe and the United States, its ability to assemble products in these markets and provide follow-on service from offices located in these regions is an important component of the Group's corporate strategy.

The Group purchases certain raw materials and sub-components from third parties pursuant to purchase orders placed from time to time. Purchase order terms range from three months to one year at fixed costs, but the Business does not have guaranteed long-term supply arrangements with its suppliers. Any material interruption in the Group's ability to purchase necessary raw materials or sub-components could have a material adverse effect on the Group's business, financial condition and results of operations.

REGULATION OF MEDICAL PRODUCTS

The medical monitoring and anaesthesia systems manufactured and marketed by the Group are subject to regulation by numerous federal government agencies, including the US Food and Drug Administration, and equivalent agencies in other countries. They are also subject to various US and international electrical safety standards.

The FDA has broad regulatory powers with respect to pre-clinical and clinical testing of new medical products and the manufacturing, marketing and advertising of medical products. It requires that all medical devices introduced to the market be preceded either by a pre-market notification clearance order under section 510(k) of the US Food, Drug and Cosmetic Act, or an approved pre-market approval application. The process of obtaining 510(k) clearance typically takes between three and six months, but can take substantially longer. The pre-market approval application review process, on the other hand, can last more than a year. To date, all of the medical monitoring and anaesthesia systems manufactured and sold in the United States have required only 510(k) pre-market notification clearance.

Such regulatory approvals, when granted, may require limitations on the indicated uses for which a product may be marketed, and such product approvals, once granted, may be withdrawn if problems occur after

initial marketing. Manufacturers of FDA-regulated products are subject to pervasive and continuing governmental regulation, including extensive record-keeping requirements and reporting of adverse experiences associated with a product's manufacture and use. Compliance with these requirements is costly, and failure to comply can result in, among other things, fines, total or partial suspension of production, product recalls, failure of the FDA to review pending marketing clearances or approval applications, withdrawal of marketing clearances or approvals or even criminal prosecution.

Spacelabs Healthcare Group is also subject to regulation in the countries in which it manufactures and markets its medical monitoring and anaesthesia systems. For example, the commercialisation of medical devices in the European Union is regulated under a system that presently requires all medical devices sold in the European Union to bear the CE mark-an international symbol of adherence to quality assurance standards, demonstrated fulfilment of the essential requirements and clinical effectiveness. Spacelabs Healthcare's manufacturing facilities in Hawthorne, California, Issaquah, Washington and Chesham, United Kingdom are all certified to the International Organisation for Standardisation's ISO 13485 standard for medical device companies. They are also certified to the requirements of the European Medical Device Directive 93 / 42 EEC, which certification allows them to self-certify that newly manufactured products can bear the CE mark.

FAILURE TO PROTECT THE BUSINESS'S INTELLECTUAL PROPERTY COULD IMPAIR ITS COMPETITIVE POSITION.

Whilst the Group owns certain patents and trademarks, some aspects of the Business cannot be protected by patents or trademarks. Accordingly, in these areas there are few legal barriers that prevent potential competitors from copying certain of the Group's products, processes, and technologies or from otherwise entering into operations in direct competition with the Business.

The Group's products may infringe the intellectual property rights of others, and resulting claims against the Business could be costly and prevent it from making or selling certain products.

Third parties may seek to claim that the Group's products and operations infringe their patent or other intellectual property rights. The Business may incur significant expense in any legal proceedings to protect its proprietary rights or to defend infringement claims by third parties. In addition, claims of third parties against the Business could result in awards of substantial damages or court orders that could effectively prevent the Group from making, using or selling its products in the US or elsewhere.

The Group's ability to compete effectively depends, inter alia, on its exploitation of technology. However, competitors may have already developed or may develop substantially equivalent information or techniques or otherwise gain access to the Group's technology. The Group's patent applications now pending or which may be applied for in the future may not lead to patents being granted and those patents already granted to the Group may not be sufficiently broad in their scope to provide protection for the Group's intellectual property rights against third parties. There cannot be any assurance as to the ownership, validity or scope of any patents which have been, or may in the future be, issued to the Group or that claims with respect thereto will not be asserted by other parties. Substantial costs may be incurred and resources diverted if the Group challenges the proprietary rights of others or is required to defend its own proprietary rights.

The commercial success of the Group will also depend upon non-infringement of patents granted to third parties who may have filed applications or who have obtained or may obtain patents which might inhibit the Group's ability to develop and exploit its own products. If this is the case, the Group may have to obtain alternative technology or reach commercial terms on the exploitation of other parties' intellectual property rights. There can be no assurance that the Group will be able to obtain alternative technology or, if any licences are required, that the Group will be able to obtain any such licence on terms acceptable to the Group, if at all. This would have a material adverse effect on the business of the Group.

Certain of the Group's proprietary technology is protected as confidential know-how. Whilst the Group endeavours to maintain the confidentiality of such information, there can be no guarantee that it will not be disclosed by employees or third parties and thereby become available for use by competitors or that competitors will not independently develop similar technology.

The Directors believe that certain patents, trademarks, and licenses are important to the Business. The loss of some patents, trademarks, or licenses might have a negative impact.

REQUIREMENT FOR ADDITIONAL FUNDS

The Directors believe that the net proceeds of the Placing will meet the Group's current funding requirements, that is for at least the next twelve months. If additional funds should be raised by issuing equity securities, dilution to the then existing Stockholders may result.

ATTRACTION AND RETENTION OF KEY EMPLOYEES

Whilst the Group has entered into employment and/or consulting arrangements with each of its key personnel with the aim of securing their services, the retention of their services cannot be guaranteed. The loss of any member of the Group's senior management or key consultants could harm or delay the plans of the Business either whilst management time is directed to finding suitable replacements or no suitable replacement is available to the Group. In either case, this may have a material adverse effect on the future of the Business.

CURRENCY RISK

The Group will present its financial information in US dollars. In addition, Spacelabs Healthcare is a company resident for tax purposes in the US and incurs the majority of its costs in US dollars. The proceeds of the Placing will be received in pounds sterling. This may give rise to an exchange rate risk against the US$, the Group's functional currency. The Group's share price will be quoted in pounds sterling. However, its reporting currency and the market for its products and services are denominated in currencies other than (pounds) sterling. As a result, movements in foreign exchange rates may cause a mismatch between actual returns and investors' expectations of returns, and also affect the share price.

The Group maintains the accounts of its operations in Canada, India, Singapore, and the United Kingdom in Canadian dollars, Indian rupees, Singapore dollars, and pounds sterling, respectively. The Group maintains the accounts of its operations in Austria, Finland, France, Germany, and Greece in euros. Foreign currency financial statements are translated into US dollars at current rates, with the exception of revenues, costs and expenses, which are translated at average rates during the reporting period. Gains and losses resulting from foreign currency transactions are included in income, while those resulting from translation of financial statements are excluded from income and accumulated as a component of Shareholder's equity.

The Group may use derivatives consisting primarily of foreign exchange contracts and interest rate swaps in the future. The Business may purchase forward contracts to hedge foreign exchange exposure relating to commitments to acquire inventory for sale.

ECONOMIC, POLITICAL, AND OTHER RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS COULD ADVERSELY AFFECT SALES

Since the Company sells products worldwide, the Business is subject to risks associated with doing business internationally. The Directors anticipate that revenues from international operations will continue to represent a substantial portion of total revenue. In addition, many of the Group's manufacturing facilities, employees and suppliers are located outside the United States. Accordingly, the Group's future results could be harmed by a variety of factors, including:

o changes in foreign currency exchange rates;

- changes in a country's or region's political or economic conditions, particularly in developing or emerging markets;
- longer payment cycles of foreign customers and difficulty in collecting receivables in foreign jurisdictions;
- trade protection measures and import or export licensing requirements;
- differing tax laws and changes in those laws;
- difficulty in staffing and managing widespread operations;
- differing labour laws and changes in those laws;
- differing protection of intellectual property and changes in that protection; and
- differing regulatory requirements and changes in those requirements.

A CLAIM FOR DAMAGES COULD MATERIALLY AND ADVERSELY AFFECT THE FINANCIAL CONDITION OR RESULTS OF OPERATIONS

The Business is exposed to potential product liability risks. There are many factors beyond the Group's control that could lead to product liability claims, such as the reliability of the customers' operators of relevant equipment, and the maintenance of relevant units by the customers. There can be no assurance that in future adequate insurance cover will be available to the Group at an acceptable cost, if at all, nor that in

the event of any claim, the level of insurance carried by the Group now or in the future will be sufficient or that a product liability or other claim would not materially and adversely affect the financial position or results of operations of the Group.

THE GROUP'S FAILURE TO COMPLY WITH ENVIRONMENTAL REGULATIONS MAY CREATE SIGNIFICANT ENVIRONMENTAL LIABILITIES AND FORCE IT TO MODIFY MANUFACTURING PROCESSES

Spacelabs Healthcare is subject to environmental laws, ordinances and regulations throughout the world relating to the use, storage, handling and disposal of certain hazardous substances and wastes used or generated in the manufacturing and assembly of products. Under such laws, Spacelabs Healthcare may become liable for the costs of removal or remediation of certain hazardous substances or wastes that have been or are being disposed of offsite as wastes or that have been or are being released on or in facilities. Such laws may impose liability without regard to whether Spacelabs Healthcare knew of, or caused, the release of such hazardous substances or wastes. Any failure to comply with present or future regulations could subject Spacelabs Medical to the imposition of substantial fines, suspension of production, alteration of manufacturing processes, or cessation of operations, any of which could have a material adverse effect on the Group's business, financial condition, and results of operations.

CHANGES IN GOVERNMENTAL REGULATIONS MAY REDUCE DEMAND FOR PRODUCTS OR INCREASE EXPENSES

Spacelabs Healthcare competes in markets in which the Group and its customers must comply with international regulations, such as environmental, health, safety, and food and drug regulations. Spacelabs Healthcare develops, configures, and markets its products to meet customer needs created by these regulations. Any significant change in these regulations could reduce demand for its products.

RISKS RELATED TO THE COMPANY'S CAPITAL STRUCTURE AND THE SHARES OF COMMON STOCK

The Company's Certificate of Incorporation and other agreements contain provisions that could discourage a takeover.

The Company's Certificate of Incorporation authorise the Board of Directors to issue up to 10,000 shares of preferred stock in one or more series, to fix the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued shares of preferred stock, to fix the number of shares constituting any such series, and to fix the designation of any such series, without further vote or action by Shareholders. The terms of any series of preferred stock, which may include priority claims to assets and dividends and special voting rights, could adversely affect the rights of the holders of Shares of Common Stock and thereby reduce the value of the Shares of Common Stock. Spacelabs Healthcare has no present plans to issue shares of preferred stock and the Company has agreed with Collins Stewart that it will not issue any shares of preferred stock without the prior consent of its nominated advisor.

The issuance of preferred stock, coupled with the concentration of ownership in OSI, could discourage certain types of transactions involving an actual or potential change in control of the Company, including transactions in which the holders of Shares of Common Stock might otherwise receive a premium for their stock over then current prices, otherwise dilute the rights of holders of Shares of Common Stock, and may limit the ability of such stockholders to cause or approve transactions which they may deem to be in their best interests, all of which could have a material adverse effect on the market price of the Shares of Common Stock. Spacelabs Healthcare has in place a stockholder rights plan, adopted in 2000, under which stockholders are entitled to purchase shares of preferred stock under certain circumstances. These circumstances include the purchase of [20] per cent. or more of the outstanding Shares of Common Stock by a person or group, or the announcement of a tender or exchange offer to acquire [20] per cent. or more of the outstanding Common Stock. The stockholder rights plan may have the effect of impeding or preventing certain types of transactions involving a change in control of the Company that could be beneficial to the stockholders.

TRANSFER RESTRICTIONS

The Shares of Common Stock are subject to restrictions on transfer as described in this document. These restrictions may affect adversely the desirability of the Shares of Common Stock and, accordingly, may affect adversely their value. Whilst the US trading restrictions referred to in this document remain in effect, the Shares of Common Stock will be settled in certificated form and will not be settled through CREST. As a

result of this, it may be more difficult for Shareholders to sell their Shares of Common Stock. Settlement in certificated form may adversely affect the liquidity of the Shares of Common Stock and may affect adversely the desirability of the Shares of Common Stock and, accordingly, their value.

CERTAIN SHAREHOLDERS WILL CONTINUE TO HAVE SUBSTANTIAL CONTROL OVER THE COMPANY FOLLOWING THE PLACING

Following completion of the Placing, OSI and UDT Sensors will own beneficially, in aggregate approximately 65 per cent. of the Enlarged Share Capital. As a result, OSI will be able to exercise significant control over all matters requiring shareholder approval, which could delay or prevent an outside party from requiring or merging with the Company. The ability of such shareholders to prevent or delay these transactions could cause the price of the Shares of Common Stock to decline.

TRADING RELATIONSHIP BETWEEN OSI & SPACELABS HEALTHCARE

Based on the master intercompany agreement entered into between OSI and Spacelabs, OSI is likely to be a significant supplier of certain products and services as detailed in paragraph 9.1(ii) of Part 7 of this document. Given the potential reliance on OSI as a major manufacturing supplier and service provider, there is a higher business risk attached to this arrangement.

TAKEOVER REGULATIONS

The Company is incorporated in and subject to the laws of the State of Delaware in the US. Accordingly, the Company and transactions in shares of its stock are not subject to the provisions of the City Code of Takeovers and Mergers (the "Code"). The Company has attempted to afford the protections of the Code to its stockholders by including provisions in its by-laws which seek to replicate the main provisions of the Code. However, there can be no certainty that these provisions would be upheld in a US court or that a US court would construe the provisions in the same way as the Panel on Takeovers and Mergers in the UK.

In an attempt to replicate the provisions of the Code, the Company's by-laws provide that if a person (or a group of persons acting in concert) owns or controls Shares of Common Stock carrying between 30 per cent. and 50 per cent. of the voting rights of the Company and such person (or group of persons) acquires additional Shares of Common Stock which increase their percentage share of voting rights that person (or group of persons) will be required to make a general offer to the other stockholders of the Company to acquire the balance of the stock at the highest price per share paid by him (or any person acting in concert with him) in the previous 12 months.

As OSI will be interested in over 50 per cent. of the voting rights of the Company at Admission, it will be able to acquire further Shares of Common Stock without incurring any obligation to make a mandatory bid under the By-laws. However, if for any reason OSI's interest falls below 30 per cent. and then increases at any time to 30 per cent. or above, then it will become subject to the restrictions outlined above (although the By-laws also provide that the Non-Executive Directors of the Company may waive this requirement).

THE COMPANY'S CERTIFICATE OF INCORPORATION AND INDEMNIFICATION AGREEMENTS ENTERED INTO BETWEEN THE COMPANY AND THE DIRECTORS LIMIT THE LIABILITY OF ITS DIRECTORS, WHICH MAY LIMIT THE REMEDIES THE COMPANY OR ITS STOCKHOLDERS HAVE AVAILABLE.

The Company's Certificate of Incorporation provides that, pursuant to the Delaware General Corporation Law of the State of Delaware, US, the liability of the Directors for monetary damages shall be eliminated to the fullest extent permissible under Delaware law. This is intended to eliminate the personal liability of a Director for monetary damages in an action brought by a third party, or in the Company's right, for breach of a Director's duties and may limit the remedies available to the Company's stockholders. This provision does not eliminate the Directors' fiduciary duty and does not apply to liabilities for:

(a) acts or omissions done or made in bad faith or that a Director ought reasonably to have known were violations of law;

(b) claims initiated or brought voluntarily by a Director and not by way of defence;

(c) expenses incurred by a Director in connection with a claim in respect of which a court determines that each of the material assertions made by the Director was not made in good faith or was frivolous;

(d) expenses or liabilities of any type whatsoever which have been paid directly to a Director by an insurance carrier under a policy of officers' and directors' liability insurance maintained by the Company; or

(e) expenses and the payment of profits arising from the purchase and sale by a Director of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

APPLICATION OF US AND UK LEGISLATION

The Company is incorporated under the laws of the State of Delaware, USA. Accordingly, a significant amount of the legislation in England and Wales regulating the operation of companies does not apply to the Company. In addition, the laws of the State of Delaware will apply in respect of the Company and these laws may provide for mechanisms and procedures that would not otherwise apply to companies incorporated in England and Wales.

REGISTRATION REQUIREMENTS AND TAX RISKS RELATING TO THE ACQUISITION OF COMPANIES FROM OSI AND UDT SENSORS

The Company entered into a stock transfer agreement with OSI and UDT Sensors on o 2005. Pursuant to this agreement OSI and UDT Sensors agreed to sell to the Company various companies owned at that time by OSI and UDT Sensors (as listed in paragraph 3.3 of Part 7). As this agreement was entered into immediately prior to the date of this document, it has not been possible to complete all of the formalities required to register the transfers of the shares of each relevant company in each jurisdiction prior to publication of this document. Therefore, at the date of this document, the Company is only the beneficial, and not the legal owner, of the shares in each of the following companies in the Group: Blease Medical Holdings Ltd., Spacelabs Healthcare Solutions Pvt Ltd., Spacelabs (Singapore) Pte. Ltd., Spacelabs Medical (Canada), Inc., Spacelabs Medical Finland Oy, Spacelabs Medical Germany GmbH, Spacelabs Medical SAS, Spacelabs Medical UK Ltd. The Company intends to complete such registration formalities as quickly as possible but this process may be delayed due to unforseen factors. Pending completion of such formalities, OSI or UDT Sensors (as the case may be) will remain registered as the legal owner of the relevant shares.

The Company intends to submit applications for exemption from tax in respect of the transfers of shares referred to above in jurisdictions where tax would normally be payable on the transfer of shares. However, there can be no guarantee that such applications will be accepted by the relevant tax authorities. In such event, tax may become payable on the value of the stock allotted to OSI and UDT Sensors as consideration for the transfer to the Company of various companies in the Group.

FORWARD LOOKING STATEMENTS

ALL STATEMENTS, OTHER THAN STATEMENTS OF HISTORICAL FACT, CONTAINED IN THIS ADMISSION DOCUMENT CONSTITUTE "FORWARD LOOKING STATEMENTS". IN SOME CASES FORWARD LOOKING STATEMENTS CAN BE IDENTIFIED BY TERMS SUCH AS "MAY", "INTEND", "MIGHT", "WILL", "SHOULD", "COULD", "WOULD", "BELIEVE", "ANTICIPATE", "EXPECT", "ESTIMATE", "PREDICT", "PROJECT", "POTENTIAL", OR THE NEGATIVE OF THESE TERMS, AND SIMILAR EXPRESSIONS. SUCH FORWARD LOOKING STATEMENTS ARE BASED ON ASSUMPTIONS AND ESTIMATES AND INVOLVE RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, FINANCIAL CONDITION, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY, THE GROUP OR INDUSTRY RESULTS, TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN PART 2 "RISK FACTORS". NEW FACTORS MAY EMERGE FROM TIME TO TIME THAT COULD CAUSE THE COMPANY'S BUSINESS NOT TO DEVELOP AS IT EXPECTS, AND IT IS NOT POSSIBLE FOR THE COMPANY TO PREDICT ALL SUCH FACTORS. GIVEN THESE UNCERTAINTIES, PROSPECTIVE INVESTORS ARE CAUTIONED NOT TO PLACE ANY UNDUE RELIANCE ON SUCH FORWARD LOOKING STATEMENTS EXCEPT AS REQUIRED BY LAW. THE COMPANY DISCLAIMS ANY OBLIGATION TO UPDATE ANY SUCH FORWARD LOOKING STATEMENTS IN THIS ADMISSION DOCUMENT TO REFLECT FUTURE EVENTS OR DEVELOPMENTS.

PART 3 -- ACCOUNTANTS' REPORT ON SPACELABS MEDICAL, INC. AND RELATED COMPANIES

The Directors
Spacelabs Healthcare, Inc.
5150 220th Avenue SE,
Issaquah,
Washington 98029
United States of America

o October 2005

Dear Sirs,

SPACELABS MEDICAL, INC. (THE "COMPANY") AND RELATED COMPANIES

We report on the financial information on Spacelabs Medical Inc. and Related Companies set out in Part 3 of the AIM Admission Document dated o October of the Company (the "Admission Document"). This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in Note 1 to the Combined Financial Statements for Spacelabs Medical, Inc. and Related Companies. This report is required by paragraph (a) of Schedule Two to the AIM Rules as if Annex I item 20.1 of the Prospectus Rules applied and is given for the purpose of complying with that requirement and for no other purpose.

RESPONSIBILITIES

The Directors of the Company and Related Companies are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with accounting standards generally accepted in the United States ("US GAAP").

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

OPINION

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Spacelabs Medical, Inc. and Related Companies as at the dates stated and of its income, cash flows and changes in parent's investment for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with US GAAP as described in note 1.

DECLARATION

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM admission document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

DELOITTE & TOUCHE LLP
Chartered Accountants

SPACELABS MEDICAL, INC. AND RELATED COMPANIES
COMBINED BALANCE SHEET AS AT
JUNE 30, 2005
(IN THOUSANDS)

ASSETS	
Current Assets:	US$'000
Cash and cash equivalents	7,875
Marketable securities, available for sale	816
Accounts receivable, net of allowance for doubtful accounts of $1,168	44,110
Other receivables	947
Inventory	38,205
Prepaid expenses	1,743
Deferred income taxes	4,586
Total current assets	98,282
Property and equipment, net	7,068
Goodwill	5,853
Intangible assets, net	19,052
Other assets	1,006
Total assets	131,261
LIABILITIES AND PARENT'S INVESTMENT	
Current Liabilities:	US$'000
Accounts payable	18,710
Payables to related parties, net	9,147
Accrued payroll and related expenses	7,249
Deferred revenue	3,936
Accrued warranties	3,706
Income taxes payable	4,051
Other accrued expenses and current liabilities	12,421
Total current liabilities	59,220
Loan from Parent	57,310
Accrued pension	604
Deferred income taxes	2,057
Total liabilities	119,191
Commitments and contingencies (Notes 3 and 6)	
Parent's investment:	
Combined parent's investment	13,544
Accumulated deficit	(768)
Accumulated other comprehensive loss	(706)
Total Parent's investment	12,070
Total liabilities and Parent's investment	131,261

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SPACELABS MEDICAL, INC. AND RELATED COMPANIES
COMBINED INCOME STATEMENT
YEAR ENDED JUNE 30, 2005
(IN THOUSANDS)

	US$'000
Revenues	195,731
Cost of goods sold	106,078
Gross profit	89,653
Operating expenses:	
Selling, general and administrative	64,528
Research and development	15,892
Management retention bonus	1,824
Write off of in-process research and development	300
Total operating expenses	82,544
Income from operations	7,109
Interest and other expense	84
Income before provision for income taxes and minority interest	7,025
Provision for income taxes	2,430
Income before minority interest	4,595
Minority interest	6
Net Income	4,601

SPACELABS MEDICAL, INC. AND RELATED COMPANIES
COMBINED STATEMENT OF CHANGES IN PARENT'S INVESTMENT
YEAR ENDED JUNE 30, 2005
(IN THOUSANDS)

	PARENT'S INVESTMENT	ACCUMULATED OTHER COMPREHENSIVE LOSS	ACCUMULATED DEFICIT	TOTAL PARENT'S INVESTMENT
	US$'000	US$'000	US$'000	US$'000
Balance, July 1, 2004	13,299	(43)	(5,318)	7,938
Comprehensive income:				
Net income			4,601	4,601
Foreign currency translation		(817)		(817)
Unrealized gain on available-for-sale securities		154		154
Total comprehensive income		(663)	4,601	3,938
Acquisition of Blease Medical Holdings	200			200
Issuance of stock options to OSI employees	51		(51)	--
Exercise of Dolphin Medical stock Options	106			106
Repurchase of Dolphin Medical shares	(112)			(112)
Balance at June 30, 2005	13,544	(706)	(768)	12,070

SPACELABS MEDICAL, INC. AND RELATED COMPANIES
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005
(IN THOUSANDS)

	US$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	4,601
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortisation	3,304
Write off of in-process research and development	300
Deferred income taxes	(2,199)
Write down of marketable securities available for sale	182
Gain on sale of assets	(32)

Other	21
Changes in operating assets and liabilities, net of business acquisitions:	
Accounts receivable	(1,345)
Other receivables	1,749
Inventory	1,493
Prepaid expenses	(53)
Accounts payable	3,962
Payables from related parties, net	(1,149)
Accrued payroll and related expenses	(44)
Deferred Revenue	(4,016)
Accrued warranties	(3,792)
Income taxes payable	3,948
Other accrued expenses and current liabilities	(1,388)
Net cash provided by operating activities	5,542
CASH FLOWS FROM INVESTING ACTIVITIES:	
Additions to property and equipment	(3,900)
Cash paid for Blease acquisition, net of cash acquired	(9,121)
Acquisition of Dolphin minority interest	(488)
Proceeds from sale of assets	40
Other	(30)
Net cash used in investing activities	(13,499)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings from Parent	9,858
Proceeds from exercise of Dolphin stock options	106
Repurchase of Dolphin Medical Shares	(112)
Net cash provided by financing activities	9,852
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(241)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,654
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,221
CASH AND CASH EQUIVALENTS, END OF YEAR	7,875

SPACELABS MEDICAL, INC. AND RELATED COMPANIES
NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

1. BASIS OF COMBINATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL -- On August 2, 2005, OSI Systems, Inc. ("OSI") formed Spacelabs Healthcare, Inc. ("Spacelabs Healthcare"), which is the combination of the following OSI healthcare division subsidiaries: (a) Spacelabs Medical, Inc. (U.S.A.) and its affiliates in Austria, Canada, China, Finland, France, Germany, Italy, Singapore and the U.K (collectively, "Spacelabs Medical"); (b) Blease Medical Holdings Ltd. (U.K.) and its wholly-owned subsidiaries Blease Medical Equipment Limited and Blease Medical Service Limited (collectively, "Blease"); (c) Dolphin Medical, Inc. (U.S.A.) and its subsidiary, Dolphin Medical Products Limited (Singapore), (collectively, "Dolphin Medical"); and (d) Osteometer MediTech, Inc. ("Osteometer"). The companies listed above are currently 100% directly or indirectly owned by OSI except for Dolphin Medical, Inc. (U.S.A), which is 89% owned by OSI and 11% owned by third parties. OSI anticipates completing an initial public offering of Spacelabs Healthcare prior to December 31, 2005.

Spacelabs Medical is a global manufacturer and distributor of patient monitoring and clinical information systems for use primarily in hospitals. It designs, manufactures and markets patient monitoring solutions for critical care, emergency and perioperative areas of the hospital, wired and wireless networks and connectivity solutions, ambulatory blood pressure monitors and medical data services, all aimed at providing caregivers with instant patient information. Spacelabs Medical was acquired by OSI in March 2004. Blease is a global manufacturer and distributor of anesthesia delivery systems, ventilators and vaporisers. Blease sells its products primarily to hospitals for use in operating rooms and anesthesia induction areas as well as in magnetic resonance imaging facilities. In addition, as pharmaceutical companies develop new anesthesia agents for the worldwide market, or as generic alternatives to patented anesthesia formulas become available, Blease works closely with them to support their new product introductions. As a result, Blease also sells its systems and components, such as anesthesia vaporisers and ventilators, directly to pharmaceutical companies and other manufacturers of anesthesia delivery systems. Blease was acquired by OSI in February 2005 and accordingly, its results of operations are included in the accompanying combined financial statements from the date of acquisition. Dolphin Medical designs, manufactures and markets pulse oximetry instruments and compatible pulse oximetry sensors, which are used to non-invasively monitor oxygenation levels in a patient's blood. Osteometer designs, manufactures and markets x-ray and ultrasound densitometers, which are used to diagnose osteoporosis as well as to provide follow-up bone density measurements.

BASIS OF COMBINATION -- The accompanying combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of Spacelabs Medical, Blease, Dolphin Medical and Osteometer (collectively, "the Company"). All significant intercompany transactions within the combined group have been eliminated.

Because this is a combined presentation of the Company, the accompanying combined financial statements as of June 30, 2005 and for the year then ended, are not necessarily indicative of the financial position, results of operations or cash flows of Spacelabs Healthcare, Inc. in the future or what the financial position, results of operations or cash flows would have been if the Company had been a separate, stand-alone entity for the period presented. See Note 8 --

Related Party Transactions.

CASH EQUIVALENTS -- The Company considers all highly liquid investments purchased with maturity of three months or less as of the acquisition date, to be cash equivalents.

MARKETABLE SECURITIES -- Marketable securities consist of equity securities categorised as available-for-sale and carried at fair value. Unrealised holding gains and losses on marketable securities are included in accumulated other comprehensive loss until realized. Unrealised holding losses that are deemed to be other-than-temporary are recognized in the combined statement of operations. Losses are determined to be other-than-temporary based on the length of time (generally nine months) and extent to which the market value has been less than cost (generally 10%) and the financial condition and near-term prospects of the issuer. Fair value of marketable securities is determined by the quoted market prices of each marketable security. For purposes of determining gross realised gains and losses, the cost of the securities sold is based upon specific identification. See Note 2 -- Marketable Securities.

CONCENTRATIONS OF RISK -- The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash, cash equivalents, available-for-sale securities and accounts receivable. The Company restricts investments in cash equivalents to financial institutions with high credit standing. At

June 30, 2005, approximately 75% of the Company's cash equivalents were held at three financial institutions. Credit risk on accounts receivable is minimised as a result of the large and diverse nature of the Company's worldwide customer base. No one customer accounted for more than 10% of accounts receivable or revenue as of June 30, 2005. The Company performs ongoing credit evaluations of its customers' financial condition and maintains allowances for potential credit losses.

The Company's trade receivables, prior to any allowance for doubtful accounts, as of June 30, 2005, were distributed geographically by location of the customer as follows:

	%
North America	63
Europe	24
Asia-Pacific	8
Other	5
	100

As the Company continues to trade internationally, a portion of its receivables are expected to be with customers located in foreign countries. While the Company attempts to secure payments with banking instruments such as letters of credit, some export sales are transacted with credit terms, and therefore collection of receivables is affected by local economic conditions. Also, in the event of default with respect to foreign export sales, collection may be more difficult in foreign countries than in the US.

The Company depends on single-source vendors for certain integral component parts. The Company's largest vendor supplies printed circuit board assemblies to Spacelabs Medical and represented approximately 27% of total manufacturing purchases during the year ended June 30, 2005 and 18% of accounts payable at June 30, 2005. While this or any other vendor could be replaced over time, abrupt disruption in the supply of printed circuit board assemblies or other single-source parts could have an adverse effect on the Company's manufacture of the products of which such items are a component.

ACCOUNTS RECEIVABLE -- The allowance for doubtful accounts involves estimates based on management's judgment, review of individual receivables and analysis of historical bad debts. The Company adjusts customer credit limits based upon each customer's payment history and current credit worthiness, as determined by credit information available at that time. The Company continuously monitors collections and payments from its customers and maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. During the year ended June 30, 2005, the Company recovered $1,952,000 from accounts that were written off at the time of the Spacelabs Medical acquisition in March 2004. This amount reduced selling, general and administrative expenses in the accompanying combined income statement.

INVENTORY -- Inventory is stated at the lower of cost or market. Cost is determined on the first-in, first-out method. The Company writes down inventory for slow-moving and obsolete inventory based on assessments of future demands and market conditions. If these factors are less favorable than those projected, additional inventory write-downs may be required.

Inventory consisted of the following at June 30, 2005:

	US$'000
Raw materials and components	17,636
Work in progress	1,215
Finished products	8,817
Demonstration inventories	2,796
Customer service inventories	7,741
	38,205

Demonstration inventories represent the Company's products being utilised in the sales and marketing process. While such inventories are available for sale to customers, some may not be sold within the next twelve months. Customer service inventories represent spare parts maintained by the Company to fulfill its warranty and service contract obligations. Customer service inventories are generally maintained for seven

years following the last commercial shipment of a product. During the year ended June 30, 2005, the Company sold inventory that had been written down prior to July 1, 2004, resulting in gross profit that exceeded normal gross profit for this inventory by approximately $1,250,000.

PROPERTY AND EQUIPMENT -- Property and equipment are stated at cost. Depreciation and amortisation are computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortised on the straight-line basis over the shorter of the useful life of the asset or the lease term.

Property and equipment consisted of the following at June 30, 2005 (in thousands):

	ESTIMATED USEFUL LIVES	US$'000
Equipment	4-8 years	4,446
Leasehold improvements	3-10 years	1,162
Tooling	3-5 years	1,287
Furniture and fixtures	4-10 years	1,028
Computer equipment and software	3-4 years	2,908
Vehicles	3-5 years	23
Total		10,854
Less accumulated depreciation and amortisation		(3,786)
		7,068

Depreciation expense totaled $1,648,000 for the year ended June 30, 2005.

IMPAIRMENT OF LONG-LIVED ASSETS -- The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the sum of the expected future cash flows, undiscounted and without interest charges is less than the carrying amount of the asset, the Company recognises an impairment loss based on the estimated fair value of the asset.

OTHER ASSETS -- Included in Other Assets is a restricted investment account in the amount of euro 500,000 ($604,000 at June 30, 2005) being held by the Company under a pension arrangement for an employee. The corresponding liability in the same amount is recorded as a pension liability in the accompanying balance sheet.

INCOME TAXES -- The Company follows the asset and liability approach whereby deferred income taxes are provided for temporary differences between the financial statement and income tax basis of the Company's assets and liabilities, based on enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred income tax assets will not be realised.

For the year ended June 30, 2005, the Company is part of the consolidated US federal and California state income tax filings of OSI Systems. Spacelabs Medical files separate state income tax returns for other states. The Company's tax expense and deferred taxes as of June 30, 2005 and for the year then ended have been computed as if the Company were filing separate, stand-alone, federal and state income tax returns. Accordingly, any settlement of U.S. federal income taxes payable will be to OSI rather than to the Internal Revenue Service.

FAIR VALUE OF FINANCIAL INSTRUMENTS -- The Company's financial instruments consist primarily of cash, marketable securities, accounts receivable, accounts payable and loan from parent. The carrying values of financial instruments, except loan from parent are representative of their fair values due to their short-term maturities. See Note 8 -- Related Party Transactions for discussion of the loan from parent.

REVENUE RECOGNITION -- The Company recognises revenue upon shipment of products when title and risk of loss passes, and when terms are fixed and collection is probable. In accordance with the terms of Staff Accounting Bulletin No. 104, "Revenue Recognition," and Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," where installation services, if provided, are essential to the functionality of the equipment, the portion of revenue for the sale attributable to installation is deferred and recognised when the installation services is provided. In an instance where terms of sale include subjective customer acceptance criteria, revenue is deferred until the acceptance criteria are met. Concurrent with the shipment of the product, the Company accrues estimated product return reserves and

warranty expenses. Critical judgments made by management related to revenue recognition include the determination of whether or not customer acceptance criteria are perfunctory or inconsequential. The determination of whether or not the customer acceptance terms are perfunctory or inconsequential impacts the amount and timing of revenue recognised.

Revenues from separate service maintenance contracts are recognised ratably over the term of the agreements. For other services, service revenues are recognised as the services are performed. Deferred revenue for services arises from advance payments received from customers for services not yet performed.

The Company's software products are subject to revenue recognition in accordance with AICPA Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2"), whereby revenue from multi-element arrangements is allocated to different elements based upon vendor-specific objective evidence. Revenue from the sale of software licenses is recognised upon shipment as the Company's software products are deemed to be off-the-shelf and do not require complex implementation. Revenue from software implementation services is recognised as the services are provided. Software maintenance revenue is deferred and recognised on a straight-line basis over the life of the maintenance agreement.

SHIPPING AND HANDLING -- Amounts billed to customers for shipping and handling costs are included as a component of revenue and the corresponding costs are included in cost of sales in accordance with EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs."

RESEARCH AND DEVELOPMENT COSTS -- Research and development costs are charged to operations as incurred. Software development costs are capitalised when a product's technological feasibility has been established through the date the product is available for general release to customers. The Company amortises these costs on a straight-line basis over a five-year period, once it is put into use. During the year ended June 30, 2005, the Company capitalised $25,000 of software development costs.

IN-PROCESS RESEARCH AND DEVELOPMENT COSTS -- The combined financial statements include a $300,000 write-off of the estimated fair value of in-process research and development costs at the February 2005 date of the Blease acquisition. The amount consists of two anesthesia products that were under development and awaiting regulatory approvals at the time of the acquisition. Each of these projects is subject to risks and uncertainties relating to completion and market acceptance and have no alternative future use.

ADVERTISING COSTS -- The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense totaled $542,000 for the year ended June 30, 2005. Advertising costs are included in selling, general and administrative expenses in the accompanying combined income statement.

FOREIGN CURRENCY TRANSLATION -- The accounts of the Company's operations in Canada, China and the United Kingdom are maintained in Canadian dollars, Chinese Yuan and U.K. pounds, respectively. The accounts of the Company's operations in Austria, Finland, France, Germany, Greece and Italy are maintained in Euros. Assets and liabilities are translated into U.S. dollars at rates in effect at the balance sheet date. Revenues, costs and expenses are translated at weighted average rates during the reporting period. Gains and losses resulting from foreign currency transactions are included in income, while those resulting from translation of financial statements are excluded from income and accumulated as a component of accumulated other comprehensive loss. Transaction losses of approximately $413,000 were included in operating expenses on the combined income statement for the year ended June 30, 2005.

GOODWILL AND INTANGIBLE ASSETS

SFAS No. 142, "Goodwill and Other Intangible Assets," requires testing goodwill for impairment on an annual basis and on an interim basis if an event occurs or circumstances change that may reduce the fair value of a reporting unit below its carrying value. The Company performed its annual impairment test during the second quarter of fiscal year 2005 and concluded that there is no impairment of goodwill at the balance sheet date. The change in the carrying amount of goodwill for the year ended June 30, 2005, is as follows:

	US$'000
Balance as of July 1, 2004	1,269
Goodwill acquired during the period, net of June 30, 2005 translation adjustment	4,739
Foreign currency translation adjustment	(155)
	5,853

SFAS No. 142 requires that intangible assets that meet the criteria for recognition apart from goodwill be reclassified and that intangibles with indefinite lives are not to be amortised but rather shall be tested for impairment at least annually or more frequently when impairment indicators are present. The Company has intangible assets for tradenames, which have indefinite lives and are therefore not subject to amortisation. The carrying value of these tradenames was $7,083,000 at June 30, 2005.

Intangible assets subject to amortisation consisted of the following at June 30, 2005:

	WEIGHTED AVERAGE LIVES	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	INTANGIBLES NET
		US$'000	US$'000	US$'000
Core technology	10 years	8,074	811	7,263
Customer relationships/backlog	9.5 years	4,004	457	3,547
Software development costs	5 years	1,997	1,119	878
Patents	11 years	416	158	258
Developed technology	5 years	150	127	23
		14,641	2,672	11,969

Amortisation expense for the year ended June 30, 2005 was $1,456,000. At June 30, 2005, estimated future amortisation expense is as follows:

	US$'000
2006	1,701
2007	1,658
2008	1,364
2009	1,278
2010	1,275
2011 and thereafter	4,690

	11,969
	======

ACCRUED WARRANTIES -- The Company offers its customers warranties on products sold to them. These warranties typically provide for repairs and maintenance of its products for a specified time period. Warranties covering software and software products do not include updates or upgrades to software functionality. Concurrent with the sale of products, a provision for estimated warranty expenses is recorded with a corresponding increase in cost of goods sold. This provision is adjusted periodically based on historical and anticipated experience. During the year ended June 30, 2005, income from operations was increased by $2,134,000 due to revisions to prior year estimates. Actual expenses of repairs under warranty, including parts and labour are charged to this provision when incurred.

The change in accrued warranties for the year ended June 30, 2005 is as follows:

	US$'000
Balance at July 1, 2004	7,025
Additions -- charged to cost of sales	2,612
Reductions for warranty repair costs	(4,261)
Increase as a result of Blease acquisition	464
Release to combined income statement	(2,134)

Balance at June 30, 2005	3,706
	======

STOCK-BASED COMPENSATION -- The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations to account for its stock-based employee compensation plans. These interpretations include FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25," issued in March 2000. Under this method, compensation expense is generally recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for

Stock-Based Compensation-Transition and Disclosure," which was released in December 2002 as an amendment to SFAS No. 123. These statements established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans.

Stock options granted to employees of OSI are accounted for using the guidance of SFAS No. 123, as amended by SFAS No. 148, and Issue 21 of EITF No. 00-23, "Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44 -- Options Granted to Entities Under Common Control," whereby the fair value of such options is determined using the Black-Scholes option pricing model at the date of grant and the grant is treated as a dividend to the parent company.

The Company applies APB Opinion No. 25 in accounting for substantially all of its stock-based awards as well as for awards of OSI stock options to Company employees and, accordingly, no compensation expenses using the intrinsic value method has been recognised for its stock option grants in the accompanying financial statements.

If the fair value based method had been applied in measuring stock compensation expense under SFAS No. 123, as amended by SFAS No. 148, the pro forma effect on net earnings for the year ended June 30, 2005 would have been as follows (in thousands except for per share amounts):

	US$'000
Net income, as reported	4,601
Less stock-based employee compensation expense under fair value based method -- net of tax related effects	(384)

Pro forma net income	4,217
	=====

The Company has two employee stock options plans: the 2004 Spacelabs Medical Stock Option Plan (the "2004 Spacelabs Plan") and the 2001 Dolphin Medical Stock Option Plan (the "2001 Dolphin Plan") (see Note 7). The weighted-average fair value of stock options granted during 2005 under the 2004 Spacelabs Plan was $0.33 per option on the date of grant. There were no grants during 2005 under the 2001 Dolphin Plan.

The fair value of option grants is determined using the Black-Scholes option pricing model with the following weighted average assumptions for the 2004 Spacelabs Plan for the year ended June 30, 2005:

Expected dividend	0.0%
Risk free interest rate	3.2%
Expected volatility	51.2%
Expected life (in years)	3.6

As noted below, SFAS 123R is effective beginning in fiscal year 2006. SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after the effective date, as well as to the unvested portion of awards outstanding as of the effective date. Upon adoption, prior periods may be, but are not required to be, restated. The Company expects that the adoption of SFAS 123R will have an adverse impact on its net earnings. Though the Company has not completed evaluation of the effect that SFAS 123R will have on its financial statements, the Company currently expects the impact of the adoption of SFAS 123R to be consistent with the pro forma effect on net earnings as represented above.

EARNINGS PER SHARE -- Because the accompanying financial statements are presented on a combined basis, earnings per share information is not meaningful and has not been presented.

USE OF ESTIMATES -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS -- In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" ("SFAS 151"), an amendment of Accounting Research Bulletin No. 43, Chapter 4. SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of SFAS 151 will have a material impact on its financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which is effective for the annual periods beginning after June 15, 2005. SFAS 123R therefore becomes effective for the Company on July 1, 2005. SFAS 123R requires all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognised as an operating expense in the income statement. The cost is recognised over the requisite service period based on fair values measured on grant dates. The new standard may be adopted using either the modified prospective transition method or the modified retrospective transition method. The Company expects the adoption of this statement will have an adverse impact on its combined financial position and results of operations. The Company has not yet completed its evaluation of the effect that SFAS 123R will have on its financial statements.

In December 2004, the FASB issued two FSP's: FSP SFAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," and FSP SFAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision Within the American Jobs Creation Act of 2004." FSP SFAS 109-1 clarifies that the tax deduction for domestic manufacturers under the American Jobs Creation Act of 2004 (the "Act") should be accounted for as a special deduction in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). FSP SFAS 109-2 grants additional time to evaluate the Act's impact on the Company's plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. The Company is currently evaluating whether to repatriate any foreign earnings and the impact has not yet been determined.

In June 2005, the EITF modified its consensus on Issue No. 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds." This guidance creates stricter standards for aggregating operating segments that do not meet the quantitative thresholds provided within SFAS 131, "Disclosures About Segments of an Enterprise and Related Information." The guidance will be effective for fiscal years ending after September 15, 2005. The Company does not anticipate that adoption of this guidance will impact the presentation of its reportable segments.

In June 2005, the FASB issued an exposure draft of a proposed standard entitled "Business Combinations -- a replacement of FASB Statement No. 141." The proposed standard, if adopted, would provide new guidance for evaluating and recording business combinations and would be effective on a prospective basis for business combinations whose acquisition dates are on or after January 1, 2007. Upon issuance of a final standard, which is expected in 2006, the Company will evaluate the impact of this new standard and its effect on the process for recording business combinations.

In July 2005, the FASB issued an exposure draft of a proposed interpretation, "Accounting for Uncertain Tax Positions." The proposed interpretation clarifies the accounting for uncertain tax positions in accordance with SFAS 109. The proposed interpretation requires that a tax position meet a "probable recognition threshold" for the benefit of the uncertain tax position to be recognised in the financial statements. A tax position that fails to meet the probable recognition threshold will result in either reduction of current or deferred tax asset or receivable, or recording a current or deferred tax liability. The proposed interpretation also provides guidance on measurement, derecognition of tax benefits, classification, interim period accounting disclosure, and transition requirements in accounting for uncertain tax positions. The proposed interpretation has a 60-day comment period and shall be effective for all companies as of the first fiscal year ending after December 15, 2005. Upon issuance of a final standard, which is expected in 2006, the Company will evaluate the impact that the interpretation will have on its combined financial statements.

2. MARKETABLE SECURITIES

In June 2004, the Company received approximately 459,000 restricted shares of QuadraMed Corp., a publicly traded company, as partial consideration for the sale of an investment in a privately-held company. In March 2005, the Company concluded that an other-than-temporary decline in the value of its QuadraMed investment had occurred based on a large and extended decline in the market price of the stock and recorded a $182,000 loss in its combined statement of operations in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity" ("SFAS 115"). As of June 30, 2005, the market price of QuadraMed's shares had recovered and the restrictions on selling the shares had lapsed. Accordingly, at June 30, 2005, the Company recorded an unrealised gain of $154,000 as a component of other comprehensive income to mark the QuadraMed investment to market based on the quoted market price of the shares in accordance with SFAS 115.

In addition to the 459,000 shares noted above, the Company also received into an escrow account $115,000 in cash and certain additional unregistered shares in QuadraMed, pending the resolution of certain purchase price adjustments. The Company has not yet assigned a value to the cash and shares held in escrow as uncertainties remain as to the amounts the Company will ultimately receive.

3. ACQUISITIONS

BLEASE MEDICAL HOLDINGS LIMITED -- In February 2005, the Company completed the acquisition of all of the outstanding shares of Blease for $9,279,000 in cash (net of cash acquired), including acquisition costs. Furthermore, during the three years following the close, contingent consideration is payable based on Blease's net revenues, provided certain requirements are met. The contingent consideration is capped at (pounds)6.25 million (approximately $11.2 million as of June 30, 2005) and will be satisfied through the issuance of notes payable by OSI. The results of operations of Blease have been included in the Company's combined statement of operations from the acquisition date, February 8, 2005.

The preliminary allocation of the acquisition cost was based on an estimate of fair values of the assets and liabilities acquired. The final determination of the purchase price is pending finalisation of the amount of contingent consideration that may become payable and may result in asset fair values and liabilities assumed that differ from the preliminary estimates of these amounts. The following table summarises the preliminary purchase price allocation of the Blease assets acquired and liabilities assumed:

	US$'000
Accounts receivable	2,070
Inventory	3,126
Other current assets, less cash acquired	260
Property and equipment	677
Goodwill	4,251
Customer relationships	750
Core technology	2,500
Tradenames	1,200
In-process research and development	300
Accounts payable	(2,941)
Accrued expenses and other current liabilities	(2,026)
Net deferred taxes	(888)
Total consideration paid, net of cash acquired	9,279

Customer relationships will be amortised over a seven year period. Core technology will be amortised over a ten year period. The weighted average amortisation period for amortisable intangibles is 9.3 years. Tradenames and goodwill have indefinite lives and are not amortised. Goodwill is not deductible for tax purposes. Acquired in-process research and development was charged to expense as of the acquisition date in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method."

The Company believes that the Blease acquisition resulted in the recognition of goodwill primarily due to projected operating synergies of the combined businesses, including, utilising the Spacelabs Medical distribution channels and expanding the Company's portfolio of products to reach more areas of the hospital.

Supplemental pro-forma disclosures of the results of operations for the fiscal year ended June 30 2005 as though the Blease acquisition had been completed as of July 1, 2004 are as follows (unaudited):

	US$'000
Revenue	204,779
Income before taxes and minority interest	5,723
Net income	3,690

DOLPHIN MEDICAL MINORITY INTEREST -- During fiscal year 2005, the Company purchased approximately 4.1 million shares or 4% in Dolphin Medical from minority shareholders for an aggregate of $488,000, increasing its controlling ownership interest in this entity from 85% to 89%. In accordance with SFAS 141, "Business Combinations," this was recorded as an increase in goodwill of $488,000.

SPACELABS MEDICAL ACQUISITION -- In March 2004, OSI completed the acquisition of Spacelabs Medical from Instrumentarium Corporation, now a subsidiary of General Electric Company. The acquisition price was approximately $47,929,000 in cash (net of cash acquired), including acquisition costs. In June 2004, OSI notified General Electric Company of a working capital and retention bonus adjustment resulting in what OSI and the Company believe to be a downward adjustment of the purchase price in the amount of $25,900,000. In September 2004, General Electric Company responded that it believes the amount of the downward adjustment to be $7,800,000. In June 2005, OSI filed suit in Delaware seeking specific performance of the purchase agreement with respect to an independent determination of the amount of the purchase price adjustment. The action is currently pending. No amounts have been recorded in the financial statements in relation to the expected reduction in the purchase price.

Pursuant to the terms of the purchase agreement, the Company assumed management retention bonus agreements for key personnel of Spacelabs Medical. Approximately $400,000 of the retention bonuses were earned following the acquisition date and were paid in June 2004. The remaining retention bonuses vest over a two-year period beginning either October 9, 2003 or March 19, 2004. The remaining amounts expected to be paid under these agreements is approximately $2,675,000, all payable during the fiscal year ending June 30, 2006. An analysis of the amount accrued under these retention bonus agreements as of June 30, 2005 and for the year then ended is as follows:

	US$'000
Balance -- July 1, 2004	2,603
Accruals	1,824
Payments	2,375
Balance -- June 30, 2005	2,052

The accrual is included in accrued payroll and related expenses on the accompanying combined balance sheet.

4. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

Other accrued expenses and current liabilities consisted of the following at June 30, 2005:

	US$'000
Deferred rent	5,468
Sales returns reserves	1,982
Accrued commissions	1,486
Customer advances	638
State and local taxes	537
Other	2,310
Total	12,421

5. INCOME TAXES

For financial reporting purposes, income before provision for income taxes and minority interest includes the following components for the year ended June 30, 2005:

	US$'000
United States	6,283
Foreign	742
Total pre-tax income	7,025

The Company's provision for income taxes is composed of the following for the year ended June 30, 2005:

	US$'000
Current:	
Federal	3,998
State	271
Foreign	223
	4,492
Change in valuation allowance	137
Deferred	(2,199)
Total provision for income taxes	2,430

The Company does not provide for U.S. income taxes on the undistributed earnings of the foreign subsidiaries, as it is the Company's intention to utilise those earnings in the foreign operations for an indefinite period of time. At June 30, 2005, undistributed earnings of the foreign subsidiaries amounted to approximately $1,922,000. It is not practical to determine the amount of income or withholding tax that would be payable upon remittances of those earnings.

Deferred income tax assets (liabilities) at June 30, 2005 consisted of the following (in thousands):

	US$'000
Deferred income tax assets:	

Net operating loss carryforwards	2,060
Inventory capitalisation	1,823
Accrued bonuses	744
Inventory reserves	659
Accrued warranty	587
Bad debt reserves	439
Inter-company profits	404
Sales returns allowance	269
Accrued vacation	202
Other	396
Total deferred income tax assets	7,584
Valuation allowance	(1,571)
Net deferred income tax asset	6,013
Deferred income tax liabilities:	
Depreciation	(1,719)
Intangible assets	(956)
Deferred rent	(632)
Other	(176)
Total deferred income tax liabilities	(3,484)
Net deferred income taxes	2,529

The Company has established a valuation allowance in accordance with the provisions of SFAS No. 109. The valuation allowance relates to the net operating loss of a subsidiary, subject to Separate Return Limitation Year ("SRLY") rules, and net operating losses of certain foreign operations. The SRLY net operating loss totals $4,096,000 and expires beginning in 2013 through 2017. The foreign net operating losses total $2,007,000 of which $300,000 expires in 2012 and $1,707,000 do not have expiration dates. The increase in the valuation allowance for the year ended June 30, 2005 was $137,000 due to losses in foreign jurisdictions where there are no offsetting deferred liabilities. The Company continually reviews the adequacy of valuation allowances and releases the allowances when it is determined that is more likely than not that the benefits will be realised.

The combined effective income tax rate differs from the federal statutory income tax rate due primarily to the following:

	US$'000	%
Provision for income taxes at US federal statutory rate	2,459	35.0
State income taxes -- net of federal benefit	147	2.1
Research and development tax credits	(205)	(2.9)
Foreign income subject to tax at other than US federal Statutory rate	(208)	(3.0)
Nondeductible expenses	100	1.4
Change in valuation allowance	137	2.0
	2,430	34.6

6. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES -- The Company leases certain property and equipment under long-term operating leases expiring on various dates through 2014, some of which contain renewal options. Certain of these leases contain clauses for escalations and payment of real estate taxes, maintenance, insurance and certain other operating expenses of the properties. Net rental expense under these leases was $4,570,000 for the year ended June 30, 2005.

In October 2004, Spacelabs Medical amended two real property leases covering office and manufacturing facilities in Issaquah, Washington. Under the amendments, Spacelabs Medical extended the term of such leases by approximately two years and relinquished certain options it held to terminate portions of such leases early. As a result, the leases now expire in December 2014. In consideration, the landlord paid the Company $2.0 million in cash which has been included in operating cash flows and recorded as deferred rent to be amortized over the remaining term of the lease. The leases are accounted for as operating leases.

Minimum aggregate future rentals are as follows:

	US$'000
Fiscal year:	
2006	6,947
2007	5,878
2008	5,089
2009	4,418
2010	4,150
2011 and thereafter	19,131
Total	45,613

DOLPHIN MEDICAL PURCHASE OPTION -- In December 2003, Dolphin Medical entered into a stock purchase and option agreement and a distribution agreement with ConMed Corporation. Under these agreements, in exchange for $2,000,000 in cash, ConMed received a 9% interest in Dolphin Medical, exclusive distribution rights for certain products of Dolphin Medical in the United States and an option to purchase substantially all of the operating assets and liabilities of the Dolphin Medical business related to certain specified products. The Company recorded $1,200,000 as minority interest and $800,000 as consideration for the distribution rights based on estimated fair value. The distribution rights liability is being amortized over the five-year term of the distribution agreement. No consideration was allocated to the option as the fair value of the Dolphin Medical assets and liabilities subject to the option was less than the minimum purchase price of the option. The option terminates upon the earlier of December 31, 2008 or the termination of the related distribution agreement with the customer. The option price is set at a multiple of Dolphin Medical's revenue for the twelve months prior to the exercise of the option but not to be less than $30,000,000 through December 31, 2007 and $40,000,000 from January 1, 2008 through December 31, 2008. At June 30, 2005, the remaining liability for the distribution rights totaled $547,000 and is included in deferred revenue in the accompanying combined balance sheet. In addition, the value of the option at June 30, 2005 was not significant.

PURCHASE COMMITMENT -- In November 2004, an agreement was entered into with an OEM manufacturer to design and manufacture a patient monitor for Spacelabs Medical. The agreement specifies that we will buy a minimum number of monitors from the manufacturer during each year of the contract at a fixed price. We may provide 12 months notice to terminate the agreement without cause after the second year of the contract. Given this termination clause, our minimum purchase commitment under this agreement is three years of purchases, which totals approximately $8.9 million. We expect to take delivery on the first units under this contract during the 2006 fiscal year.

Minimum future purchases under this agreement are as follows (in thousands):

	US$'000
Fiscal year:	
2006	1,490
2007	2,980
2008	2,980
2009	1,490
2010	--
2011 and thereafter	--
Total	8,940

LETTERS OF CREDIT -- Spacelabs Medical has an arrangement with a bank in the United States that provides for up to $100,000 in letters of credit and $400,000 for overdrafts borrowings. As of June 30, 2005, a $58,400 standby letter of credit was outstanding under the letter of credit portion of the facility. The overdraft borrowings portion bears interest at the bank's prime rate (6.25% at June 30, 2005) plus 3%. There were no outstanding amounts under the overdraft borrowing portions of the facility as of June 30, 2005. The facility is collateralised by a guarantee from OSI.

PLEDGE OF ASSETS -- Substantially all of the assets of the Company's U.S. subsidiaries are pledged as collateral to OSI's bank in connection with their senior revolving line of credit. In addition, OSI's senior revolving line of credit agreement contains certain restrictive covenants that impact the Company. These include restrictions on the payment of dividends, incurrence of additional indebtedness, incurrence of liens and mergers and acquisitions.

LITIGATION -- In March 2004, certain individuals named Spacelabs Medical, and OSI Systems Inc., and a hospital in a petition claiming that the individuals suffered injuries in March 2003 caused, in part, by a defective monitoring system manufactured by Spacelabs Medical. The amount of the claim has not yet been specified.

In April 2004, certain individuals named Spacelabs Medical, as well as several other defendants, in a petition that alleges, among other things, that a product possibly manufactured by Spacelabs Medical failed to properly monitor a hospital patient thereby contributing to the patient's death in November 2001. The amount of the claim has not yet been specified.

In accordance with SFAS No. 5, "Accounting for Contingencies," the Company has not accrued for loss contingencies relating to the above matters because it believes that, although unfavorable outcomes in the proceedings or unasserted claims may be possible, they are not considered by management to be probable or reasonably estimable. If one or more of these matters are resolved in a manner adverse to the Company, the impact on the Company's results of operations, financial position and/or liquidity could be material.

In August 2004, the former president of Spacelabs Medical submitted an arbitration claim against both Spacelabs and OSI alleging breach of a retention and severance agreement seeking approximately $1.5 million and punitive damages. This claim was settled subsequent to June 30, 2005 for $950,000, with $578,000 being paid by Spacelabs Medical and $372,000 by OSI. The Company's $578,000 share of the settlement amount was determined based on the retention component of the settlement and is included in payroll and related accruals in the combined balance sheet as of June 30, 2005.

In February 2005, a Greek distribution company filed an action in the courts of Greece claiming that Spacelabs orally agreed to appoint them as Spacelabs' exclusive Greek distributor in 1999, but failed to do so. The distribution company claims that it incurred significant expenses as a result of Spacelabs' actions, and demands euro 872,414 (approximately $1,054,000 as of June 30, 2005) in compensation. The Company has

accrued a $250,000 loss contingency for this claim which represents the Company's best estimate of the probable loss that may be incurred. This amount is included in other accruals in the consolidated balance sheet as of June 30, 2005.

Various lawsuits and claims are pending against the Company, including product liability claims which are generally covered by insurance policies. Although the outcome of such lawsuits and claims cannot be predicted with certainty, the expected disposition thereof will not, in the opinion of management both individually and in the aggregate, result in a material adverse effect on the Company's results of operations and financial position.

7. STOCK OPTION PLANS

THE 2004 SPACELABS MEDICAL STOCK OPTION PLAN -- The 2004 Spacelabs Plan was established in April 2004 and authorizes the grant of up to 10,000,000 shares of Spacelab Medical common stock in the form of nonqualified options. Employees, consultants and non-employee directors of Spacelabs Medical, the Company, OSI or OSI's subsidiaries, are eligible under this plan, which is administered by the board of directors of Spacelabs Medical, who determine the terms and conditions of each grant. Exercise periods for the options granted under the 2004 Spacelabs Plan may not exceed ten years from the grant date, or such lesser period of time as is set forth in each individual stock option agreement. All stock options granted to date have an expiration period of five years.

The following summarises stock option activity for the 2004 Spacelabs Plan for the year ended June 30, 2005:

		OPTION PRICE	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE	TOTAL $'000
Outstanding -- July 1, 2004	4,887,500	$ 0.58	2,834,750
Granted	4,188,500	0.80	3,362,075
Exercised	--	--	--
Forfeited	(1,152,500)	0.59	(674,250)
Outstanding -- June 30, 2005	7,923,500	$ 0.70	5,522,575

The following summarises pricing and term information for 2004 Spacelabs Plan options outstanding as of June 30, 2005:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$0.58 -- $0.95	4.18	$0.70	943,750	$0.58

THE 2001 DOLPHIN MEDICAL STOCK OPTION PLAN -- The 2001 Dolphin Plan was established in 2001 and authorises the grant of up to 10,000,000 shares of Spacelab Medical common stock in the form of nonqualified options. Employees, consultants and non-employee directors of Dolphin Medical, the Company or the Company's subsidiaries, are eligible under this plan, which is administered by the board of directors of Dolphin Medical, who determine the terms and conditions of each grant. Exercise periods for the options granted under the 2001 Dolphin Plan may not exceed ten years from the grant date, or such lesser period of time as is set forth in each individual stock option agreement. All stock options granted to date have an expiration period of five years.

The following summarises stock option activity for the 2001 Dolphin Plan for the fiscal years ended June 30:

		OPTION PRICE	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE	TOTAL $'000
Outstanding -- July 1, 2004	6,760,000	$ 0.05	338,000
Granted	--	--	--
Exercised	(2,187,500)	0.05	(109,375)
Forfeited	(2,937,500)	0.05	(146,875)
Outstanding -- June 30, 2005	1,635,000	$ 0.05	81,750

The following summarises pricing and term information for 2001 Dolphin Plan options outstanding as of June 30, 2005:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$0.05	1.75	$0.05	1,226,250	$0.05

8. RELATED-PARTY TRANSACTIONS

ALLOCATIONS -- All operating expenses associated with the Company are included in the accompanying combined financial statements, including expenses incurred by OSI on behalf of the Company. Certain corporate expenses incurred by OSI that are not practicable to be specifically identified as costs of the Company, which include human resources, treasury, accounting, information technology and executive officer costs, have been allocated by OSI. Management has allocated these costs based on percentage estimates of time or departmental effort devoted to working on Company related matters in relation to overall OSI matters. Allocated costs of $1,479,000 for the year ended June 30, 2005 are included in selling, general and administrative expenses in the accompanying combined statement of operations. Management of the Company believes these methods of allocation are reasonable, and approximate what these expenses would have been on a stand-alone basis.

LOAN FROM PARENT -- OSI provides loans to the Company for working capital and to fund acquisitions. Through June 30, 2005, the loans were non-interest bearing and have unspecified repayment terms. Prior to completion of the public offering the Company intends to enter into a formal loan agreement with OSI that will specify that interest will accrue on the loans at the Prime Rate and will allow OSI to call for full or partial repayment of the loans with a notice period of 367 days. Accordingly, the loans are recorded as long term on the accompanying combined balance sheet. If the proposed public offering is completed, the Company intends to use approximately $45,000,000 of the proceeds to repay a portion of this loan. The Company believes the carrying value of the loan from parent approximates its fair value as the loan will bear a market rate of interest.

SUPPLY ARRANGEMENTS -- Spacelabs Medical purchases printed circuit board assemblies from a subsidiary of OSI. Dolphin Medical purchases sub-assemblies and finished goods from various OSI subsidiaries. For the year ended June 30, 2005, inventory purchases from OSI affiliates totaled $10,840,000. Management of the Company believes the costs of these purchases are equivalent to what the Company could purchase from third party suppliers.

MANUFACTURING AND OFFICE FACILITIES -- Certain of the Company's businesses share manufacturing and office space with OSI and its subsidiaries. The cost of these facilities is charged to the Company based on square-footage of the shared facility. The total amount charged to the Company for the year ended June 30, 2005 was $365,000.

INSURANCE -- The Company is covered under OSI's various liability and property insurance coverages. The actual costs of these coverages are charged to the Company on a specific identification basis. The total amount charged to the Company for the year ended June 30, 2005 was $1,631,000.

OTHER -- OSI and certain of its subsidiaries also perform other activities on behalf of the Company including accounting, legal, information technology, and engineering. For the year ended June 30, 2005, OSI charged the Company $508,000 related to these services based on the actual costs of the services provided.

TAX SHARING AGREEMENT -- Prior to completion of the public offering, the Company intends to enter into a tax sharing agreement with OSI. The terms of this agreement are expected to assign responsibility to the Company for all taxes arising in the pre-separation period attributable to the Company. OSI is expected to retain, and indemnify the Company for, among other things, the tax liabilities incurred as a result of transferring assets to the Company. Any other separation-related tax liabilities generally will be paid by the party legally responsible and OSI and the Company will agree to cooperate in the resolution of such taxes. The tax sharing agreement is also expected to deal with the allocation of obligations and responsibilities in connection with certain administrative matters relating to taxes.

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9. EMPLOYEE BENEFIT PLANS

DEFINED CONTRIBUTION PLAN -- The U.S. employees of the Company are eligible to participate in OSI qualified employee retirement savings plan. The plan provides for a contribution by the Company, which is determined annually by the Board of Directors. In addition, the plan permits voluntary salary reduction contributions by employees. The Company contributed $604,000 to the plan for the fiscal year ended June 30, 2005.

OSI EMPLOYEE STOCK PURCHASE PLAN -- The U.S. Employees of the Company who have been regular employees for at least six months and who meet certain other criteria, are eligible to purchase through regular payroll deductions shares of OSI Common Stock. The plan is administered by the Board of Directors of OSI or a committee of the board and qualifies as an "employee stock purchase plan" as defined in Section 423 of the Internal Revenue Code. The Company's liability to the plan was $326,000 at June 30, 2005, representing payroll deductions from the Company's employees that have not yet been used to purchase OSI Common Stock.

10. SEGMENT INFORMATION

The Company operates in two reportable segments as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"). The Monitoring Solutions segment includes two operating segments Patient Monitoring/Anaesthesia and Dolphin Medical. "All Other" includes the Company's medical data services business. The Patient Monitoring/Anaesthesia and Dolphin Medical operating segments have been aggregated pursuant to the rules of FAS 131. The aggregated businesses provide products and services within the medical products market and have similar economic characteristics, including similar operating margins. The businesses have similar production processes, similar types and classes of customers, and sell through similar distribution channels. In addition, the different businesses operate within the same overall regulatory environment. The accounting policies of the two segments are identical to the policies in Note 1. There were no inter-segment revenues during the year ended June 30, 2005.

The following tables present the operations and identifiable assets by segment as of June 30, 2005 and for the year then ended:

MONITORING

	SOLUTIONS	ALL OTHER	TOTAL
	US$'000	US$'000	US$'000
External customer revenue	190,205	5,526	195,731
Income from operations	6,450	659	7,109
Total assets	128,382	2,879	131,261
Capital expenditures	3,676	305	3,981
Depreciation and amortisation expense	3,276	28	3,304

Revenues from external customers by geographic region, based on location of the end-customer, and by product group are as follows for the year ended June 30, 2005:

	UNITED STATES	FOREIGN	TOTAL
	US$'000	US$'000	US$'000
Capital equipment	93,778	40,034	133,812
Services, spare parts, supplies and accessories	36,604	25,315	61,919
Total revenue	130,382	65,349	195,731

No single country outside of the United States represents more than 10% of total revenue.

The Company's long-lived assets are distributed as follows as of June 30, 2005:

	UNITED STATES	FOREIGN	TOTAL
	US$'000	US$'000	US$'000
Total long-lived assets	22,524	10,455	32,979

Long-lived assets in the U.K. totaled $9,188,000 as of June 30, 2005.

11. SUPPLEMENTAL CASH FLOW INFORMATION

The following provides additional information concerning cash flow activities for the year ended June 30, 2005:

	US$'000
Interest paid	30
Income taxes paid	592
Unrealised gain on marketable securities	154

12. SUBSEQUENT EVENTS

PUBLIC OFFERING -- OSI has engaged Collins Stewart, a London-based investment bank to pursue the public offering and listing of approximately 30% to 35% of the equity in the Company. This offering and listing is planned in the United Kingdom on the AIM Exchange, which is owned and administered by the London Stock Exchange. The shares in Spacelabs Healthcare will not be offered or sold in the United States. Under SEC Regulation S, U.S. residents are prohibited from participating in this proposed offering of shares in the newly formed company, and any shares offered cannot be acquired by U.S. residents for a period of twelve months from the date of the offering.

HURRICANE KATRINA -- Certain customers of Spacelabs Medical in the Gulf Coast region of the United States may have incurred significant damage in August 2005 as a result of Hurricane Katrina which may impair or delay their ability to pay the Company for amounts owing. In addition, service and demonstration inventories of the Company's field service engineers and sales representatives may have been damaged or lost in the storm and resulting flooding. The Company does not expect that this damage will have a material impact on financial results but is in the process of assessing the extent of the damage and is unable at this time to determine the related costs. The Company is currently reviewing the terms of its insurance coverages with its broker and carriers.

STOCK OPTIONS -- On July, 11 2005, Spacelabs Medical granted stock options for 739,000 shares under the 2004 Spacelabs Plan to employees and directors at an exercise price of $10.

PART 4 -- ACCOUNTANTS' REPORT ON SPACELABS HEALTHCARE, INC.

The Directors
Spacelabs Healthcare, Inc.
5150 220th Avenue SE,
Issaquah,
Washington 98029

[o] October 2005

Dear Sirs,

SPACELABS HEALTHCARE, INC. ("THE COMPANY")

INTRODUCTION

We report on the financial information relating to the Company, as set out below, prepared for inclusion in the Admission Document dated [o] October, 2005 of the Company ("the Admission Document") relating to the admission of Spacelabs Healthcare, Inc.'s share capital to trading on AIM, a market operated by London Stock Exchange plc. This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in the Notes to the financial information in Part 4 of the Admission Document. This report is required by paragraph (a) of Schedule Two to the AIM Rules as if Annex I item 20.1 of the Prospectus Rules applied and is given for the purpose of complying with that requirement and for no other purpose.

RESPONSIBILITY

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information in part 4 of the Admission Document and are in accordance with accounting standards generally accepted in the United States ("US GAAP").

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

OPINION

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Spacelabs Healthcare, Inc. as at the date stated in accordance with the basis of preparation set out in note 1 and in accordance with US GAAP as described in note 1.

DECLARATION

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM admission document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

PART 4 -- FINANCIAL INFORMATION ON SPACELABS HEALTHCARE, INC.

BALANCE SHEET

	NOTE	AS AT 31 AUGUST 2005 $
CURRENT LIABILITIES		
Accounts Payable	2	687
Net Assets		687
SHAREHOLDERS' FUNDS		
Share capital	3	1
Paid-in-capital		999
Receivable from OSI		(1,000)
Current year loss		687
		687

NOTES TO THE FINANCIAL INFORMATION

(1) ACCOUNTING POLICIES

The financial information has been prepared under the historical cost convention and in accordance with generally accepted accounting standards in the United States of America ("US GAAP").

(2) HISTORY

The Company was incorporated on 2 August 2005 under the name Spacelabs

Healthcare, Inc. The Company has not traded and no dividends have been declared or paid. Accordingly no profit and loss account or cash flow statement is presented. The only transaction reflected is a payable to OT Corporation for the set-up costs involved in establishing a legal entity in Delaware.

(3) SHARE CAPITAL

The Company was incorporated with an authorised share capital of $250,000 represented by 250,000,000 ordinary shares of $0.001 each and $10 represented by 10,000 shares of Preferred stock with a par value of $0.001 each. At 31 August 2005, the Company had issued 1,000 ordinary shares of $0.001 each at par.

(4) POST BALANCE SHEET EVENTS

PUBLIC OFFERING -- OSI has engaged Collins Stewart, a London-based investment bank to pursue the public offering and listing of approximately 30% to 35% of the equity in the Company. This offering and listing is planned in the United Kingdom on the AIM Exchange, which is owned and administered by the London Stock Exchange. The shares in Spacelabs Healthcare will not be offered or sold in the United States. Under SEC Regulation S, U.S. residents are prohibited from participating in this proposed offering of shares in the newly formed company, and any shares offered cannot be acquired by U.S. residents for a period of twelve months from the date of the offering.

PART 5 -- FINANCIAL INFORMATION ON BLEASE MEDICAL HOLDINGS

The following are financial statements of Blease Medical Holdings for the years ended 31 May 2003 and 31 May 2004. The financial information contained in this Part 5 has been derived from financial statements delivered to Companies House.

No separate financial information is presented in respect of each subsidiary undertaking of Blease Medical Holdings, as the accounts of those subsidiary undertakings are not considered to be reasonably necessary for the purposes of making an informed assessment of the Group's assets and liabilities, financial position, profits and losses and prospects, or of the securities being offered.

PART 5(A) -- FINANCIAL INFORMATION ON BLEASE MEDICAL HOLDINGS

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BLEASE MEDICAL HOLDINGS LIMITED

We have audited the financial statements of Blease Medical Holdings Limited for the period ended 31 May 2003 which comprise the consolidated profit and loss account, the consolidated and company balance sheets and the consolidated notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the chairman's and directors' reports, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BLEASE MEDICAL HOLDINGS LIMITED

FUNDAMENTAL UNCERTAINTY

In forming our opinion we have considered the adequacy of disclosures made in the financial statements concerning the borrowing facilities which are available to the group. The financial statements have been prepared on a going concern basis, the validity of which depends on the Group being able to operate within the existing bank facilities. The financial statements do not include any adjustments that would result from a failure to operate within these facilities. Details of the circumstances relating to this fundamental uncertainty are described on page 56 of this document. Our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the group and the company at 31 May 2003 and of the group loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON THAMES VALLEY OFFICE
SLOUGH
11 MAY 2004

PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

Subsequent to the year end the group carried out a refinancing programme through the issue of (pounds)529,412 Secured Loan Notes 2009 with warrants attached covering the subscription at par for a further 105,882 ordinary shares at a price of (pounds)1 per share.

The group has continuing bank facilities to 31 August 2004 and is actively pursuing plans agreed with the bank to reduce the required facilities by that date. The group is currently operating within its facilities and the directors are confident that provided the groups trading and working capital are in line with expectations the existing facility will be sufficient.

If the group does not achieve requisite profitability or working capital requirements exceed expectation the directors may then seek to obtain further funds. The financial statements do not therefore include any adjustment that might arise from the inability of the group to trade as a going concern.

The principal accounting policies of the group are set out below and have remained unchanged from previous years, apart from deferred taxation.

BASIS OF CONSOLIDATION

The group financial statements consolidate those of the company and its subsidiary undertakings (see note 11) drawn up to 31 May 2003. All of a subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date and profits or losses on intra-group transactions are eliminated in full on consolidation

TURNOVER

Turnover is the total amount receivable by the group in the ordinary course of business with outside customers for goods supplied as a principal and for services provided, excluding VAT and trade discounts. In the case of income from maintenance agreements, recognition of sales is taken over the period of the contract.

DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives.

The periods generally applicable are:

Plant and machinery 2 -- 5 years

Fixtures and fittings 4 -- years

Motor vehicles 4 years

RESEARCH AND DEVELOPMENT

Development costs incurred on specific projects are capitalised when recoverability can be assessed with reasonable certainty and amortised once the product has come to commercial production over a period of five years, which is expected to be in line with sales arising from the projects. All other development and all research costs are written off as incurred.

INTANGIBLE FIXED ASSETS

Goodwill on acquisition is calculated as being the difference between the consideration paid and the fair value of the assets purchased. This is capitalised and amortised over its estimated useful life, considered to be ten years.

Identifiable intellectual property purchased separately from a business is included at cost and amortised over its expected useful economic life.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost, less amounts written off.

STOCK AND WORK IN PROGRESS

Stock and work in progress is stated at the lower of cost and net realisable value.

DEFERRED TAX

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

FOREIGN CURRENCIES

Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The accounting policy for foreign currency translation is as prescribed by Statement of Standard Accounting Practice No. 20.

LEASED ASSETS

Where assets are financed by leasing agreements which give risk and rewards approximate to ownership ("finance leases") they are treated as if they had been purchased outright on credit. They are therefore initially recorded as a fixed asset and a liability at a sum equal to the fair value of the asset. Leasing payments on such assets are regarded as consisting of a capital element which reduces the outstanding liability and an interest charge (calculated using the straight-line method).

All other leases are regarded as operating leases and the total payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

CONTRIBUTIONS TO PENSION FUNDS

DEFINED CONTRIBUTION SCHEME

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MAY 2003

	NOTE	2003 (pounds)	2002 (pounds)
Turnover	1	11,009,125	10,702,900
Cost of sales		(8,191,164)	(7,747,539)
Gross profit		2,817,961	2,955,361
Distribution costs		(1,369,618)	(1,100,049)
Administrative expenses		(2,019,838)	(1,569,518)
OPERATING (LOSS)/PROFIT		(571,495)	285,794
Interest receivable and similar income	2	3,827	1,473
Interest payable and similar charges	3	(59,451)	(80,983)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1	(627,119)	206,284
Tax on (loss)/profit on ordinary activities	5	81,018	(75,174)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	20	(546,101)	131,110
Appropriations -- equity	7	(7,920)	(51,213)
(LOSS)/PROFIT TRANSFERRED (FROM)/TO RESERVES	20	(554,021)	79,897

There were no recognised gains or losses other than the (loss)/profit for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET AT 31 MAY 2003

	NOTE	2003 (pounds)	2002 (pounds)
FIXED ASSETS			
Intangible assets	9	174,454	227,650
Tangible assets	10	723,273	564,623
		897,727	792,273
CURRENT ASSETS			
Stocks	12	1,796,213	2,356,743
Debtors	13	2,091,419	2,418,949
Cash at bank and in hand		216,832	4,891
		4,104,464	4,780,583
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(3,542,925)	(3,448,424)
NET CURRENT ASSETS		561,539	1,332,159
TOTAL ASSETS LESS CURRENT LIABILITIES		1,459,266	2,124,432
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15	(244,630)	(319,690)
PROVISION FOR LIABILITIES AND CHARGES	17	--	(28,165)
		1,214,636	1,776,577
CAPITAL AND RESERVES			
Called up share capital	19	529,412	529,412
Capital redemption reserve	20	75,000	75,000
Share premium account	20	1,045,588	1,045,588
Profit and loss account	20	(435,364)	126,577
SHAREHOLDERS' FUNDS		1,214,636	1,776,577

The financial statements were approved by the Board of Directors on 11 May 2004.

Mr A J D Ferguson -- Director

The accompanying accounting policies and notes form an integral part of these financial statements.

COMPANY BALANCE SHEET AT 31 MAY 2003

	NOTE	2003 (pounds)	2002 (pounds)
FIXED ASSETS			
Investments	11	1,000,000	1,000,000
CURRENT ASSETS			
Debtors	13	--	650,000
Cash at bank and in hand		1	1
		1	650,001
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(1)	(1)
NET CURRENT ASSETS		--	650,000
		1,000,000	1,650,000
CAPITAL AND RESERVES			
Called up share capital	19	529,412	529,412
Capital redemption reserve	20	75,000	75,000
Share premium account	20	1,045,588	1,045,588
Profit and loss account	20	(650,000)	--

SHAREHOLDERS' FUNDS	1,000,000	1,650,000
	=========	=========

The financial statements were approved by the Board of Directors on 11 May 2004.

Mr A J D Ferguson -- Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MAY 2003

	NOTE	2003 (pounds)	2003 (pounds)	2002 (pounds)	2002 (pounds)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	21		(5,952)		797,935
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		3,827		--	
Interest paid		(59,451)		(70,280)	
Dividends paid		(15,840)		--	
		-------		-------	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(71,464)		(70,280)
CORPORATION TAX PAID			(39,397)		--
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of tangible fixed assets		(359,300)		(258,947)	
Sale of tangible fixed assets		2,133		777	
		--------		--------	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			(357,167)		(258,170)
FINANCING					
Repayment of borrowing		(53,900)		(46,779)	
Capital element of finance lease rentals		(23,923)		(32,943)	
		--------		--------	
NET CASH OUTFLOW FROM FINANCING			(77,823)		(79,722)
(DECREASE)/INCREASE IN CASH	22		--------		--------
			(551,803)		389,763
			========		========

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2003

1. TURNOVER AND (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover and (loss)/profit before taxation are attributable to the continuing operations and principal activity of the design, manufacture, and distribution of medical ventilation and anaesthetic equipment and associated equipment.

	2003 (pounds)	2002 (pounds)
United Kingdom	4,908,331	4,817,836
Overseas	6,100,794	5,885,064
	----------	----------
	11,009,125	10,702,900
	==========	==========

Further analysis of sales and operating loss before tax by geographical area has not been provided as in the opinion of the directors this would be seriously prejudicial to the interests of the group.

The (loss)/profit on ordinary activities is stated after charging:

	2003 (pounds)	2002 (pounds)
Auditors' remuneration	16,650	16,550
Depreciation of tangible fixed assets:		
- -- owned	174,650	134,232

- -- held under finance leases	26,000	33,751
Amortisation of intangible fixed assets:		
- -- goodwill	19,797	19,797
- -- development costs	26,479	26,479
- -- intellectual property	6,920	6,920
Operating lease rentals:		
- -- hire of plant and machinery	157,392	138,130
- -- land and buildings	176,085	154,736
Research and development:		
- -- current year expenditure	600,319	488,851
Exchange loss/(gain)	31,432	(28,308)
	=======	=======

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 (pounds)	2002 (pounds)
Bank interest receivable	3,827	1,473
	=====	=====

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 (pounds)	2002 (pounds)
On bank loans and overdrafts	59,451	80,983
	======	======

4. DIRECTORS AND EMPLOYEES

The average number of employees of the group during the year and their aggregate emoluments are shown below:

	2003 (pounds)	2002 (pounds)
Wages and salaries	2,944,720	2,506,387
Social security costs	282,605	237,148
Other pension costs	55,437	43,926
	---------	---------
	3,282,762	2,787,461
	=========	=========

The average number of employees of the group during the year was 119 (2002: 107).

Staff costs include remuneration in respect of directors, as follows:

	2003 (pounds)	2002 (pounds)
Management remuneration	96,024	104,667
Pension contributions	12,600	12,600
	-------	-------
	108,624	117,267
	=======	=======

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2003 (pounds)	2002 (pounds)
The highest paid director	108,624	104,667
	=======	=======

5. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

The tax (credit)/charge represents:

	2003 (pounds)	2002 (pounds)
Corporation tax	--	47,009
Deferred taxation	(28,165)	28,165
Adjustment in respect of prior periods	(52,853)	--
	-------	------
	(81,018)	75,174
	=======	======

6. FACTORS AFFECTING THE TAXATION (CREDIT)/CHARGE

	2003 (pounds)	2002 (pounds)
(Loss)/profit on ordinary activities before taxation	(627,119)	206,284
Rate of corporation tax	30%	30%
Expected corporation tax charge	(188,136)	61,885
Effect of:		
Permanent differences	15,786	21,547
Movement in accelerated capital allowances	(15,391)	(7,586)
Utilisation of tax losses and advanced corporation tax brought forward	--	(15,414)
Carry back of tax losses	62,072	--
Accumulation of tax losses	125,669	--
Marginal relief adjustment	--	(13,423)
Deferred taxation	(28,165)	28,165
Adjustments in respect of prior periods	(52,853)	--
	-------	-------
Tax (credit)/charge for the year	(81,018)	75,174
	=======	=======

7. APPROPRIATIONS

	2003 (pounds)	2002 (pounds)
EQUITY APPROPRIATIONS:		
Fixed cumulative preferential dividend	7,920	11,880
Cumulative preferential dividend of 30% of profit after tax	--	39,333
	7,920	51,213

8. PROFIT FOR THE FINANCIAL YEAR

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The loss after taxation but before dividends was (pounds)634,160 (2002: (pounds)nil) and has been dealt with in the financial statements of the company.

9. INTANGIBLE FIXED ASSETS -- GROUP

	TOTAL (pounds)	GOODWILL (pounds)	DEVELOPMENT COSTS (pounds)	INTELLECTUAL PROPERTY (pounds)
Cost				
At 1 June 2002 and at 31 May 2003	364,875	197,977	132,296	34,602
Amortisation				
At 1 June 2002	137,225	68,488	50,147	18,590
Provided in the year	53,196	19,797	26,479	6,920
At 31 May 2003	190,421	88,285	76,626	25,510
Net book amount at 31 May 2003	174,454	109,692	55,670	9,092
Net book amount at 31 May 2002	227,650	129,489	82,149	16,012

10. TANGIBLE FIXED ASSETS -- GROUP

	TOTAL (pounds)	PLANT AND MACHINERY (pounds)	FIXTURES AND FITTINGS (pounds)	MOTOR VEHICLES (pounds)
Cost				
At 1 June 2002	2,022,012	1,260,317	694,659	67,036
Additions	359,300	288,863	70,437	--
Disposals	(21,650)	--	--	(21,650)
At 31 May 2003	2,359,662	1,549,180	765,096	45,386
Depreciation				
At 1 June 2002	1,457,389	914,771	518,931	23,687
Provided in the year	200,650	130,428	58,876	11,346
Eliminated on disposals	(21,650)	--	--	(21,650)
At 31 May 2003	1,636,389	1,045,199	577,807	13,383
Net book amount at 31 May 2003	723,273	503,981	187,289	32,003
Net book amount at 31 May 2002	564,623	345,546	175,728	43,349

The figures stated above include assets held under finance leases as follows:

	PLANT AND MACHINERY (pounds)
Net book amount at 31 May 2003	73,667
Net book amount at 31 May 2002	118,402

11. FIXED ASSETS INVESTMENTS -- COMPANY

Total fixed asset investments comprise:

	2003 (pounds)	2002 (pounds)
Shares in subsidiary undertakings	1,000,000	1,000,000

At 31 May 2003 the company had the following subsidiaries, all registered in England and Wales:

	PRINCIPAL ACTIVITY	ISSUED ORDINARY SHARE CAPITAL HELD BY THE COMPANY
Blease Medical Equipment Limited	Manufacture and distribution of medical equipment	100%
Blease Medical Services Limited	Dormant	100% held by Blease Medical Equipment Limited
McCrea Engineering Co Limited	Dormant	100% held by Blease Medical Equipment Limited

12. STOCKS -- GROUP

	2003 (pounds)	2002 (pounds)
Raw materials	1,261,530	1,515,521
Work in progress	299,801	654,644
Finished goods	234,882	186,578
	1,796,213	2,356,743

13. DEBTORS

	GROUP 2003 (pounds)	COMPANY 2003 (pounds)	GROUP 2002 (pounds)	COMPANY 2002 (pounds)
Trade debtors	1,966,601	--	2,333,524	--
Amounts owed by subsidiary undertakings	--	--	--	650,000
VAT	41,755	--	40,856	--
Other debtors	45,129	--	9,860	--
Prepayments and accrued income	37,934	--	34,709	--
	2,091,419	--	2,418,949	650,000

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP 2003 (pounds)	COMPANY 2003 (pounds)	GROUP 2002 (pounds)	COMPANY 2002 (pounds)
Bank loan and overdrafts	1,010,693	--	246,945	--
Trade creditors	1,442,416	--	2,396,537	--
Current taxation	--	--	49,123	--
Social security and other taxes	133,686	--	139,505	--
Other creditors	2,100	1	12,324	1
Accruals and deferred income	932,874	--	580,067	--
Amounts due under finance leases	21,156	--	23,923	--
	3,542,925	1	3,448,424	1

The bank loan and overdrafts are secured by an unlimited debenture over all the assets of the group.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR -- GROUP

	2003 (pounds)	2002 (pounds)
Bank loan	100,444	154,348
Amounts due under finance leases	44,186	65,342
Other loan	100,000	100,000
	244,630	319,690

16. BORROWINGS -- GROUP

Borrowings are repayable as follows:

	2003 (pounds)	2002 (pounds)
Within one year:		
Bank loans and overdrafts	1,010,693	246,945
Finance leases	21,156	23,923
After one and within two years:		
Bank loan	50,000	50,000
Finance leases	23,236	21,156
Between two and within five years:		

Bank loan	50,444	104,348
Finance leases	20,950	44,186
After five years:		
Other loan	100,000	100,000
	---------	-------
	1,276,479	590,558
	=========	=======

17. PROVISION FOR LIABILITIES AND CHARGES

	DEFERRED TAXATION (pounds)
At 1 June 2002	28,165
Released during the year	(28,165)

At 31 May 2003	--
	=======

18. DEFERRED TAXATION

Deferred taxation provided for the financial statements is set out below.

	AMOUNT PROVIDED 2003 (pounds)	AMOUNT PROVIDED 2002 (pounds)
Accelerated capital allowances	--	28,165
	=======	=======

There is an unprovided deferred taxation liability of (pounds)15,360 at 31 May 2003 (2002: (pounds)nil), which arises due to accelerated capital allowances, and which is not provided due to carried forward tax losses.

19. SHARE CAPITAL

	2003 (pounds)	2002 (pounds)
AUTHORISED		
750,000 Preference shares of 10p each	75,000	75,000
45,000 `A' preferred ordinary shares of (pounds)1 each	45,000	45,000
79,412 `B' preferred ordinary shares of (pounds)1 each	79,412	79,412
463,823 Ordinary shares of (pounds)1 each	463,823	463,823
	-------	-------
	663,235	663,235
	=======	=======

	2003 (pounds)	2002 (pounds)
ALLOTTED, CALLED UP AND FULLY PAID		
45,000 `A' preferred ordinary shares of (pounds)1 each	45,000	45,000
79,412 `B' preferred ordinary shares of (pounds)1 each	79,412	79,412
405,000 Ordinary shares of (pounds)1 each	405,000	405,000
	-------	-------
	529,412	529,412
	=======	=======

SHARE CAPITAL (CONTINUED)

PREFERENCE SHARES

The preference shares are non-equity shares which carry an entitlement to a fixed cumulative preferential dividend of 8% of the issue price per share per annum. They were redeemed at the issue price.

`A' PREFERRED ORDINARY SHARES

The `A' preferred ordinary shares are equity shares which carry an entitlement of a fixed cumulative preferential dividend of (pounds)7,920 per annum to be apportioned pro rata according to the issue price, a participating dividend, which when added to the fixed cumulative preferential dividend is equal to 1.5% of the profit before tax for each year, to be apportioned pro rata according to the issue price, and a further dividend equal to the amount payable as dividends on each `B' preferred ordinary shares and ordinary shares which is in excess of the fixed cumulative preferential dividend and the participating dividend paid on each `A' preferred ordinary share. Holders of `A' preferred ordinary shares have one vote for every share held. `A' preferred ordinary shareholders have the right on a winding-up to receive, after preference shareholders and `B' preferred ordinary shareholders a sum equal to the issue price of `B' preferred ordinary shares together with any arrears of dividends. Each `A' preferred ordinary share can be converted into one ordinary share only if the holder wishes to convert its entire holding and serves notice accordingly.

`B' PREFERRED ORDINARY SHARES

The `B' preferred ordinary shares are equity shares which carry an entitlement to a cumulative preferential dividend of 30% of profit after tax, for each financial year commencing on or after 1 June 2000, which will be apportioned pro rata among holders of `B' preferred ordinary shares and ordinary shares. Holders of `B' preferred ordinary shares have one vote for every share held. `B' preferred shareholders have the right on a winding-up to receive, after preference shareholders, a sum equal to the issue price. Each `B' preferred ordinary share can be converted to one ordinary share but only if any class of the issued share capital is admitted to the official list of the London Stock Exchange or to trading on the Alternative Investment Market or any other recognised investment exchange, or if the holder wishes to convert its entire holding and serves notice accordingly.

ORDINARY SHARES

The ordinary equity shares are shares which carry an entitlement to a cumulative preferential cash dividend of 30% of profit after tax, for each financial year commencing on or after 1 June 2001, which will be apportioned pro rata among the holders of ordinary shares and `B' preferred ordinary shares. Holders of ordinary shares have one vote for every share held.

Any excess of assets on winding-up shall be distributed amongst the holders of the preferred ordinary shares and the ordinary shares as if they constituted one class of share.

CONTINGENT RIGHTS TO THE ALLOTMENTS OF SHARES

The company has granted options to J Rayner and R Cooke. Each option relates to 10,000 ordinary (pounds)1 shares at (pounds)5.78 per share exercisable at any time between 14 October 2001 and 14 October 2005.

20. SHAREHOLDERS' FUNDS

	CAPITAL REDEMPTION RESERVE (pounds)	SHARE CAPITAL (pounds)	SHARE PREMIUM ACCOUNT (pounds)	PROFIT AND LOSS ACCOUNT (pounds)	TOTAL (pounds)
GROUP					
At 1 June 2001	75,000	529,412	1,045,588	(4,533)	1,645,467
Profit for the year	--	--	--	131,110	131,110
Appropriations	--	--	--	(51,213)	(51,213)
	75,000	529,412	1,045,588	75,364	1,725,364
Preferential dividend not declared	--	--	--	51,213	51,213
At 31 May 2002	75,000	529,412	1,045,588	126,577	1,776,577
Loss for the year	--	--	--	(546,101)	(546,101)
Dividends	--	--	--	(7,920)	(7,920)
	75,000	529,412	1,045,588	(427,444)	1,222,556
Dividends appropriated in prior periods	--	--	--	(7,920)	(7,920)
At 31 May 2003	75,000	529,412	1,045,588	(435,364)	1,214,636

	CAPITAL REDEMPTION RESERVE (pounds)	SHARE CAPITAL (pounds)	SHARE PREMIUM ACCOUNT (pounds)	PROFIT AND LOSS ACCOUNT (pounds)	TOTAL (pounds)
COMPANY					
At 1 June 2001	75,000	529,412	1,045,588	--	1,650,000
				--	
Profit for the year					
Appropriations	--	--	--	--	--
	--	--	--	(51,213)	(51,213)
Preferential dividend not declared	75,000	529,412	1,045,588	(51,213)	1,598,787
	--	--	--	51,213	51,213
At 31 May 2002	75,000	529,412	1,045,588	--	1,650,000
Loss for the year	--	--	--	(634,160)	(634,160)
Dividends	--	--	--	(7,920)	(7,920)
	--	--	--	(642,080)	1,007,920
Dividend appropriated in prior periods	--	--	--	(7,920)	(7,920)
At 31 May 2003	75,000	529,412	1,045,588	(650,000)	1,000,000

Cumulative dividends to holders of ordinary shares, `A' and `B' preferred ordinary shares are (pounds)123,708 (2002: (pounds)131,628) in arrears, and are not included in creditors.

21. NET CASH INFLOW FROM OPERATING ACTIVITIES

	2003 (pounds)	2002 (pounds)
Operating (loss)/profit	(571,495)	285,794
Depreciation and amortisation	253,846	221,179
Profit on sale of tangible fixed assets	(2,133)	(777)
Decrease/(increase) in stocks	560,530	(500,835)
Decrease/(increase) in debtors	370,657	(248,988)
(Decrease)/increase in creditors	(617,357)	1,041,562

Net cash (outflow)/inflow from operating activities	(5,952)	797,935

22. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2003 (pounds)	2002 (pounds)
(Decrease)/increase in cash in the year	(551,807)	389,763
Cash outflow from financing	77,827	79,722
Change in net debt resulting from cash flow in the year	(473,980)	469,485
Net debt at 1 June 2002	(585,667)	(1,055,152)
Net debt at 31 May 2003	(1,059,647)	(585,667)

23. ANALYSIS OF CHANGES IN NET DEBT

	AT 1 JUNE 2002 (pounds)	CASH FLOW (pounds)	AT 31 MAY 2003 (pounds)
Overdrafts	(196,945)	(763,744)	(960,689)
Cash in hand and at bank	4,891	211,941	216,832
	(192,054)	(551,803)	(793,861)
Debt	(304,348)	53,900	(250,448)
Finance leases	(89,265)	23,923	(65,342)
	(585,667)	(473,980)	(1,059,647)

24. CAPITAL COMMITMENTS

The group and company had no capital commitments at 31 May 2003 and 31 May 2002.

25. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The company participates in the group bank overdraft facility and is a party to the unlimited multilateral guarantee which secures this facility.

The group and company had no other guarantees or financial commitments at 31 May 2003 or 31 May 2002.

26. PENSIONS

Defined contribution scheme

The group operates a defined contribution pension scheme. The assets of the scheme are administered by trustees in a fund independent from the group.

27. LEASING COMMITMENTS

Operating lease payments amounting to (pounds)323,132 (2002: (pounds)225,041) are due within one year. The leases to which these amounts relate expire as follows:

	2003		2002	
	LAND AND BUILDINGS (pounds)	OTHER (pounds)	LAND AND BUILDINGS (pounds)	OTHER (pounds)
In one year or less	19,000	21,636	--	16,206
Between one and five years	106,480	113,044	61,000	51,735
In five years or more	62,500	472	96,100	--
	187,980	135,152	157,100	67,941

28. ULTIMATE CONTROLLING PARTY

The company's ultimate controlling party is Mr A J D Ferguson, a director of the company.

29. RELATED PARTY TRANSACTIONS

During the year the company waived a loan amounting to (pounds)650,000 due from Blease Medical Equipment Limited, a subsidiary undertaking.

The group rents the Deansway property from Duncan Property Investments Limited, which is under the common control of Mr A J D Ferguson. Rent charged is considered to be a realistic reflection of market rent, this amounted to (pounds)62,500 (2002: (pounds)62,500), all of which was paid in the relevant year.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BLEASE MEDICAL HOLDINGS LIMITED

We have audited the financial statements of Blease Medical Holdings Limited for the period ended 31 May 2004 which comprise the principal accounting policies, consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the consolidated notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the chairman's and directors' reports, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

FUNDAMENTAL UNCERTAINTY

In forming our opinion we have considered the adequacy of disclosures made in the financial statements concerning the borrowing facilities which are available to the group. The financial statements have been prepared on a going concern basis, the validity of which depends on the Group being able to operate within existing bank facilities, and being able to renew such facilities on expiry of the agreed terms. The financial statements do not include any adjustments that would result from a failure to operate within these facilities. Details of the circumstances relating to this fundamental uncertainty are described on page [o]. Our opinion is not qualified in this respect.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BLEASE MEDICAL HOLDINGS LIMITED

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the group and the company at 31 May 2004 and of the group loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON THAMES VALLEY OFFICE
SLOUGH
23 DECEMBER 2004

PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention. The principal accounting policies of the group are set out below and have remained unchanged from previous years.

The group changed its bankers to Barclays Bank plc and on 1st December 2004 has drawn down a (pounds)400,000 five year loan repayable by 60 equal monthly installments and additionally agreed a (pounds)400,000 overdraft facility for review 31 August 2005. The group is currently cash positive and the directors are confident it can trade within its loan and overdraft facility, although headroom will remain tight if forecast sales increases are not achieved.

If the group does not achieve requisite profitability or working capital requirements exceed expectations the directors may then seek to obtain further funds. The financial statements do not therefore include any adjustment that might arise from the inability of the group to trade as a going concern.

BASIS OF CONSOLIDATION

The group financial statements consolidate those of the company and its subsidiary undertakings (see note 11) drawn up to 31 May 2004. All of a subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date and profits or losses on intra-group transactions are eliminated in full on consolidation

TURNOVER

Turnover is the total amount receivable by the group in the ordinary course of business with outside customers for goods supplied as a principal and for services provided, excluding VAT and trade discounts. In the case of income from maintenance agreements, recognition of sales is taken over the period of the contract.

DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives.

The periods generally applicable are:

Plant and machinery	2 -- 5 years
Fixtures and fittings	4 -- 5 years
Motor vehicles	4 years

RESEARCH AND DEVELOPMENT

Development costs incurred on specific projects are capitalised when recoverability can be assessed with reasonable certainty and amortised once the product has come to commercial production over a period of five years, which is expected to be in line with sales arising from the projects. All other development and all research costs are written off as incurred.

INTANGIBLE FIXED ASSETS

Goodwill on acquisition is calculated as being the difference between the consideration paid and the fair value of the assets purchased. This is capitalised and amortised over its estimated useful life, considered to be ten years.

Identifiable intellectual property purchased separately from a business is included at cost and amortised over its expected useful economic life.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost, less amounts written off.

STOCK AND WORK IN PROGRESS

Stock and work in progress is stated at the lower of cost and net realisable value.

DEFERRED TAX

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

FOREIGN CURRENCIES

Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The accounting policy for foreign currency translation is as prescribed by Statement of Standard Accounting Practice No. 20.

LEASED ASSETS

Where assets are financed by leasing agreements which give risk and rewards approximate to ownership ("finance leases") they are treated as if they had been purchased outright on credit. They are therefore initially recorded as a fixed asset and a liability at a sum equal to the fair value of the asset. Leasing payments on such assets are regarded as consisting of a capital element which reduces the outstanding liability and an interest charge (calculated using the straight-line method).

All other leases are regarded as operating leases and the total payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

CONTRIBUTIONS TO PENSION FUNDS

The pension costs charged against profits represent the amount of the contributions payable to the personal pension arrangements of its employees.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MAY 2004

	NOTE	2004 DISCONTINUED OPERATIONS (pounds)	2004 CONTINUING OPERATIONS (pounds)	2004 TOTAL (pounds)	2003 (pounds)
Turnover	1	718,624	9,194,082	9,912,706	11,009,125
Cost of sales		(327,370)	(7,177,403)	(7,504,773)	(8,191,164)
Gross profit		391,254	2,016,679	2,407,933	2,817,961
Distribution costs		--	(1,043,168)	(1,043,168)	(1,369,618)
Administrative expenses		(310,620)	(1,597,138)	(1,907,758)	(2,019,838)
OPERATING (LOSS)/PROFIT		80,634	(623,769)	(542,993)	(571,495)
Interest receivable and similar income	2			33	3,827
Interest payable and similar charges	3			(84,304)	(59,451)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	1				
Tax on loss on ordinary activities	5			(627,264)	(627,119)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	18			--	81,018
Appropriations -- equity	7				
LOSS TRANSFERRED FROM RESERVES	18			(627,264)	(546,101)
				--	(7,920)
				(627,264)	(554,021)

There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET AT 31 MAY 2004

	NOTE	2004 (pounds)	2003 (pounds)
FIXED ASSETS			
Intangible assets	9	123,278	174,454
Tangible assets	10	530,511	723,273
		653,789	897,727
CURRENT ASSETS			
Stocks	12	1,770,848	1,796,213
Debtors	13	2,028,640	2,091,419
Cash at bank and in hand		101,832	216,832
		3,901,320	4,104,464
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(3,182,156)	(3,542,925)
NET CURRENT ASSETS		719,164	561,539
TOTAL ASSETS LESS CURRENT LIABILITIES		1,372,953	1,459,266
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15	(785,582)	(244,630)
		587,371	1,214,636
CAPITAL AND RESERVES			
Called up share capital	17	529,412	529,412
Capital redemption reserve	18	75,000	75,000
Share premium account	18	1,045,588	1,045,588
Profit and loss account	18	(1,062,629)	(435,364)
SHAREHOLDERS' FUNDS		587,371	1,214,636
FIXED ASSETS			
Investments	11	1,000,000	1,000,000
CURRENT ASSETS			
Debtors	13	533,004	--
Cash at bank and in hand		--	1
		533,004	1

CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(3,572)	(1)
		----------	----------
NET CURRENT ASSETS		529,432	--
		----------	----------
CREDITORS: AMOUNTS FALLING AFTER ONE YEAR		(529,412)	--
		----------	----------
		1,000,020	1,000,000
		==========	==========
CAPITAL AND RESERVES			
Called up share capital	17	529,412	529,412
Capital redemption reserve	18	75,000	75,000
Share premium account	18	1,045,588	1,045,588
Profit and loss account	18	(649,980)	(650,000)
		----------	----------
SHAREHOLDERS' FUNDS		1,000,020	1,000,000
		==========	==========

The financial statements were approved by the Board of Directors 23 December 2004.

A J D Ferguson -- Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MAY 2004

	NOTE	2004 (pounds)	2004 (pounds)	2003 (pounds)	2003 (pounds)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	19		(122,881)		(5,952)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		33			
Interest paid		(84,304)		3,827	
Dividends paid		--		(59,451)	
		-------		(15,840)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				-------	
CORPORATION TAX PAID			(84,271)		(71,464)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			--		(39,397)
Purchase of tangible fixed assets		(40,019)			
Sale of tangible fixed assets		--		(359,300)	
		-------		2,133	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				--------	
FINANCING			(40,019)		(357,167)
Loan advances		719,412			
Repayment of borrowing		(155,224)		--	
Capital element of finance lease rentals		(21,156)		(53,900)	
		--------		(23,923)	
NET CASH INFLOW/(OUTFLOW) FROM FINANCING				--------	
INCREASE/(DECREASE) IN CASH	20		543,032		(77,823)
			--------		--------
			295,861		(551,803)
			========		========

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2004

1. TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover and loss before taxation are attributable to the continuing operations and principal activity of the design, manufacture, and distribution of medical ventilation and anaesthetic equipment and associated equipment.

	2004 (pounds)	2003 (pounds)
United Kingdom	3,413,663	4,908,331

Overseas	6,499,043	6,100,794
	9,992,706	11,009,125

Further analysis of sales and operating loss before tax by geographical area has not been provided as in the opinion of the directors this would be seriously prejudicial to the interests of the group.

The loss on ordinary activities is stated after charging:

	2004 (pounds)	2003 (pounds)
Auditors' remuneration	17,500	16,650
Depreciation of tangible fixed assets:		
- -- owned	206,781	174,650
- -- held under finance leases	26,000	26,000
Amortisation of intangible fixed assets:		
- -- goodwill	19,797	19,797
- -- development expenditure	26,459	26,479
- -- intellectual property	4,920	6,920
Operating lease rentals:		
- -- hire of plant and machinery	158,537	157,392
- -- land and buildings	180,730	176,085
Research and development:		
- -- current year expenditure	667,442	600,319
Exchange loss	27,064	31,432

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 (pounds)	2003 (pounds)
Bank interest receivable	33	3,827

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 (pounds)	2003 (pounds)
On bank loans and overdrafts	84,304	59,451

4. DIRECTORS AND EMPLOYEES

The average number of employees of the group during the year and their aggregate emoluments are shown below:

	2004 (pounds)	2003 (pounds)
Wages and salaries	2,478,969	2,944,720
Social security costs	263,220	282,605
Other pension costs	45,641	55,437
	2,787,730	3,282,762

The average number of employees of the group during the year was 110 (2003: 119).

Staff costs include remuneration in respect of directors, as follows:

	2004 (pounds)	2003 (pounds)
Management remuneration	96,851	96,024
Pension contributions	8,750	12,600
	105,601	108,624

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2004 (pounds)	2003 (pounds)
Emoluments	96,851	120,846
Pension contributions	8,750	12,600

5. TAX ON LOSS ON ORDINARY ACTIVITIES

The tax credit represents:

	2004 (pounds)	2003 (pounds)
Deferred taxation	--	(28,165)
Adjustment in respect of prior periods	--	(52,853)
	--	(81,018)

The group has tax losses carried forward of approximately (pounds)920,000 (2003: (pounds)390,000).

6. FACTORS AFFECTING THE TAXATION (CREDIT)/CHARGE

	2004 (pounds)	2003 (pounds)
Loss on ordinary activities before taxation	(627,264)	(627,119)
Rate of corporation tax (%)	19	30
Expected corporation tax charge	(119,180)	(188,136)
Effect of:		
Permanent differences	--	15,786
Movement in accelerated capital allowances	15,297	(15,391)
Carry back of tax losses	--	62,072
Accumulation of tax losses	103,883	125,669
Deferred taxation	--	(28,165)
Adjustments in respect of prior periods	--	(52,853)
Tax charge/(credit) for the year	--	(81,018)

7. APPROPRIATIONS

	2004 (pounds)	2003 (pounds)
Fixed cumulative preferential dividend	--	7,920

8. PROFIT FOR THE FINANCIAL YEAR

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The profit after taxation but before dividends was (pounds)20 (2003: loss (pounds)634,160) and has been dealt with in the financial statements of the company.

9. INTANGIBLE FIXED ASSETS -- GROUP

	DEVELOPMENT COSTS (pounds)	GOODWILL (pounds)	INTELLECTUAL PROPERTY (pounds)	TOTAL (pounds)
Cost				
At 1 June 2003 and at 31 May 2004	132,296	197,977	34,602	364,875
Amortisation				
At 1 June 2003	76,626	88,285	25,510	190,421
Provided in the year	26,459	19,797	4,920	51,176
At 31 May 2003	103,085	108,082	30,430	241,597
Net book amount at 31 May 2004	29,211	89,895	4,172	123,278
Net book amount at 31 May 2003	55,670	109,692	9,092	174,454

10. TANGIBLE FIXED ASSETS -- GROUP

	PLANT AND MACHINERY (pounds)	FIXTURES AND FITTINGS (pounds)	MOTOR VEHICLES (pounds)	TOTAL (pounds)
Cost				
At 1 June 2003	1,549,180	765,096	45,386	2,359,662
Additions	37,689	2,330	--	40,019
At 31 May 2004	1,586,869	767,426	45,386	2,399,681
Depreciation				
At 1 June 2003	1,045,199	577,807	13,383	1,636,389
Provided in the year	158,284	63,151	11,346	232,781
At 31 May 2004	1,203,483	640,958	24,729	1,869,170
Net book amount at 31 May 2004	383,386	126,468	20,657	530,511
Net book amount at 31 May 2003	503,981	187,289	32,003	723,273

The figures stated above include assets held under finance leases as follows:

PLANT AND

	MACHINERY (pounds)
Net book amount at 31 May 2003	47,667
Net book amount at 31 May 2002	73,667

11. FIXED ASSETS INVESTMENTS -- COMPANY

Total fixed asset investments comprise:

	2004 (pounds)	2003 (pounds)
Shares in subsidiary undertakings	1,000,000	1,000,000

At 31 May 2004 the company had the following subsidiaries, all registered in England and Wales:

	PRINCIPAL ACTIVITY	ISSUED ORDINARY SHARE CAPITAL HELD BY THE COMPANY
Blease Medical Equipment Limited	Manufacture and distribution of medical equipment	100%
Blease Medical Services Limited	Dormant	100% held by Blease Medical Equipment Limited
McCrea Engineering Co Limited	Dormant	100% held by Blease Medical Equipment Limited

12. STOCKS -- GROUP

	2004 (pounds)	2003 (pounds)
Raw materials	1,248,578	1,261,530
Work in progress	360,342	299,801
Finished goods	161,928	234,882
	1,770,848	1,796,213

13. DEBTORS

	GROUP 2004 (pounds)	COMPANY 2004 (pounds)	GROUP 2003 (pounds)	COMPANY 2003
Trade debtors	1,844,773	--	1,966,601	--
Amounts owed by subsidiary undertakings	--	533,004	--	--
Social security and other taxes	77,219	--	41,755	--
Other debtors	48,910	--	45,129	--
Prepayments and accrued income	57,738	--	37,934	--
	2,028,640	533,005	2,091,419	--

14. CREDITORS: AMOUNTS FAILING DUE WITHIN ONE YEAR

	GROUP 2004 (pounds)	COMPANY 2004 (pounds)	GROUP 2003 (pounds)	COMPANY 2003 (pounds)
Bank loan and overdrafts	599,832	2,039	1,010,693	--
Trade creditors	1,504,558	--	1,442,416	--
Social security and other taxes	102,904	1,533	133,686	--
Other creditors	--	--	2,100	1
Accruals and deferred income	951,626	--	932,874	--
Amounts due under finance leases	23,236		21,156	--

	3,182,156	3,572	3,542,925	1

The bank loan and overdrafts are secured by an unlimited debenture over all the assets of the group.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP 2004 (pounds)	COMPANY 2004 (pounds)	GROUP 2003 (pounds)	COMPANY 2003 (pounds)
Bank loan	45,220	--	100,444	--
Amounts due under finance leases	20,950	--	44,186	--
Other loans	719,412	529,412	100,000	--
	785,582	529,412	244,630	--

The bank loan is repayable in equal monthly instalments as represented by the disclosure in note 16 below. Interest is charged at base rate plus 2.25%.

The bank loan and overdraft has been repaid by 1 December 2004 and replaced by the new banking arrangements referred to on page 6.

Other loans have been provided to the company and group during the year and are subject to an interest charge of 12% per year. They are repayable as follows:

- loan of (pounds)190,000 provided to Blease Medical Equipment Limited has no fixed repayment terms

- loans of (pounds)529,412 provided to Blease Medical Holdings Limited are repayable in five equal annual instalments commencing October 2005.

16. BORROWINGS - GROUP

Borrowings are repayable as follows:

	2004 (pounds)	2003 (pounds)
Within one year:		
Bank loans and overdrafts	599,832	1,010,693
Finance leases	23,236	21,156
After one and within two years:		
Bank loan	45,220	50,000
Finance leases	20,950	23,236
Other loans	105,882	--
Between two and within five years:		
Bank loan	--	50,444
Finance leases	--	20,950
Other loans	317,647	--
After five years:		
Other loans	305,883	100,000
	1,408,650	1,276,479

17. SHARE CAPITAL

	2004 (pounds)	2003 (pounds)
Authorised		
750,000 Preference shares of 10p each	75,000	75,000
45,000 `A' preferred ordinary shares of (pounds)1 each	45,000	45,000
79,412 `B' preferred ordinary shares of (pounds)1 each	79,412	79,412
463,823 Ordinary shares of (pounds)1 each	463,823	463,823
	663,235	663,235

	2004 (pounds)	2003 (pounds)
Allotted, called up and fully paid		
45,000 `A' preferred ordinary shares of (pounds)1 each	45,000	45,000
79,412 `B' preferred ordinary shares of (pounds)1 each	79,412	79,412
405,000 Ordinary shares of (pounds)1 each	405,000	405,000
	529,412	529,412

PREFERENCE SHARES

The preference shares are non-equity shares which carry an entitlement to a fixed cumulative preferential dividend of 8% of the issue price per share per annum. They were redeemed at the issue price.

`A' PREFERRED ORDINARY SHARES

The `A' preferred ordinary shares are equity shares which carry an entitlement of a fixed cumulative preferential dividend of (pounds)7,920 per annum to be apportioned pro rata according to the issue price, a participating dividend, which when added to the fixed cumulative preferential dividend is equal to 1.5% of the profit before tax for each year, to be apportioned pro rata according to the issue price, and a further dividend equal to the amount payable as dividends on each `B' preferred ordinary shares and ordinary shares which is in excess of the fixed cumulative preferential dividend and the participating dividend paid on each

`A' preferred ordinary share. Holders of `A' preferred ordinary shares have one vote for every share held. `A' preferred ordinary shareholders have the right on a winding-up to receive, after preference shareholders and `B' preferred ordinary shareholders a sum equal to the issue price of `B' preferred ordinary shares together with any arrears of dividends. Each `A' preferred ordinary share can be converted into one ordinary share only if the holder wishes to convert its entire holding and serves notice accordingly.

`B' PREFERRED ORDINARY SHARES

The `B' preferred ordinary shares are equity shares which carry an entitlement to a cumulative preferential dividend of 30% of profit after tax, for each financial year commencing on or after 1 June 2000, which will be apportioned pro rata among holders of `B' preferred ordinary shares and ordinary shares. Holders of `B' preferred ordinary shares have one vote for every share held. `B' preferred shareholders have the right on a winding-up to receive, after preference shareholders, a sum equal to the issue price. Each `B' preferred ordinary share can be converted to one ordinary share but only if any class of the issued share capital is admitted to the official list of the London Stock Exchange or to trading on the Alternative Investment Market or any other recognised investment exchange, or if the holder wishes to convert its entire holding and serves notice accordingly.

ORDINARY SHARES

The ordinary equity shares are shares which carry an entitlement to a cumulative preferential cash dividend of 30% of profit after tax, for each financial year commencing on or after 1 June 2001, which will be apportioned pro rata among the holders of ordinary shares and 1`B' preferred ordinary shares. Holders of ordinary shares have one vote for every share held.

Any excess of assets on winding-up shall be distributed amongst the holders of the preferred ordinary shares and the ordinary shares as if they constituted one class of share.

CONTINGENT RIGHTS TO THE ALLOTMENTS OF SHARES

The company has granted an option to J Rayner, which relates to 10,000 ordinary (pounds)1 shares at (pounds)5.78 per share exercisable at any time between 14 October 2001 and 14 October 2005.

WARRANTS ATTACHED TO ISSUED LOAN NOTES

The company has issued warrants to holders of loan notes which relate to the issue of 105,882 ordinary (pounds)1 shares at (pounds)1 per share.

18. SHAREHOLDERS' FUNDS

	CAPITAL REDEMPTION RESERVE (pounds)	SHARE CAPITAL (pounds)	SHARE PREMIUM ACCOUNT (pounds)	PROFIT AND LOSS ACCOUNT (pounds)	TOTAL (pounds)
GROUP					
At 1 June 2002	75,000	529,412	1,045,588	126,577	1,776,577
Loss for the year	--	--	--	(546,101)	(546,101)
Dividends	--	--	--	(7,920)	(7,920)
	75,000	529,412	1,045,588	(427,444)	1,222,556
Dividends appropriated in prior periods	--	--	--	(7,920)	(7,920)
At 31 May 2003	75,000	529,412	1,045,588	(435,364)	1,214,636
Loss for the year	--	--	--	(627,264)	(627,264)
At 31 May 2004	75,000	529,412	1,045,588	(1,062,628)	587,372

	CAPITAL REDEMPTION RESERVE (pounds)	SHARE CAPITAL (pounds)	SHARE PREMIUM ACCOUNT (pounds)	PROFIT AND LOSS ACCOUNT (pounds)	TOTAL (pounds)
COMPANY					
At 1 June 2002	75,000	529,412	1,045,588	--	1,650,000
Loss for the year	--	--	--	(634,160)	(643,160)
Dividends	--	--	--	(7,920)	(7,920)
	75,000	529,412	1,045,588	(642,080)	(1,007,920)
Dividend appropriated in prior periods	--	--	--	(7,920)	(7,920)
At 31 May 2003	75,000	529,412	1,045,588	(650,000)	1,000,000
Profit for the year	--	--	--	20	20
At 31 May 2004	75,000	529,412	1,045,588	(649,980)	1,000,020

Cumulative dividends to holders of ordinary shares, `A' and `B' preferred ordinary shares are (pounds)131,628 (2003: 123,708) in arrears, and are not included in creditors.

19. NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004 (pounds)	2003 (pounds)
Operating loss	(542,993)	(571,495)
Depreciation and amortisation	283,957	253,846
Profit on sale of tangible fixed assets	--	(2,133)
Decrease in stocks	25,365	560,530
Decrease in debtors	62,779	370,657
Increase/(decrease) in creditors	48,011	(617,357)
Net cash outflow from operating activities	(122,881)	(5,952)

20. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2004 (pounds)	2003 (pounds)
Increase/(decrease) in cash in the year	295,861	(551,807)
Cash inflow/(outflow) from financing	(543,032)	77,827
Change in net debt resulting from cash flow in the year	(247,171)	(473,980)
Net debt at 1 June 2003	(1,059,647)	(585,667)
Net debt at 31 May 2004	(1,306,818)	(1,059,647)

21. ANALYSIS OF CHANGES IN NET DEBT

	AT 1 JUNE 2002 (pounds)	CASH FLOW (pounds)	AT 31 MAY 2003 (pounds)
Overdrafts	(960,689)	410,861	(549,828)
Cash in hand and at bank	216,832	(115,000)	101,832
	(743,857)	295,861	(447,996)
Debt	(250,448)	(564,188)	(814,636)
Finance leases	(65,342)	21,156	(44,186)
	(1,059,647)	(247,171)	(1,306,818)

22. CAPITAL COMMITMENTS

The group and company had no capital commitments at 31 May 2004 and 31 May 2003.

23. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The company participates in the group bank overdraft facility and is a party to the unlimited multilateral guarantee which secures this facility. The group and company had no other guarantees or financial commitments at 31 May 2004 or 31 May 2003.

24. PENSIONS

The company pays contributions to the personal pension arrangements of its employees.

25. LEASING COMMITMENTS

Operating lease payments amounting to (pounds)304,731 (2003: (pounds)323,132) are due within one year. The leases to which these amounts relate expire as follows:

	2004		2003	
	LAND AND UILDINGS (pounds)	OTHER (pounds)	LAND AND BUILDINGS (pounds)	OTHER (pounds)
In one year or less	--	9,975	19,000	21,636
Between one and five years	118,230	114,027	106,480	113,044
In five years or more	62,500	--	62,500	472
	180,730	124,001	187,980	135,152

26. ULTIMATE CONTROLLING PARTY

The company's ultimate controlling party is Mr A J D Ferguson, a director of the company.

27. RELATED PARTY TRANSACTIONS

In the prior year the company waived a loan amounting to (pounds)650,000 due from Blease Medical Equipment Limited, a subsidiary undertaking.

The group rents the Deansway property from Duncan Property Investments Limited, which is under the common control of Mr A J D Ferguson. Rent charged is considered to be a realistic reflection of market rent, and amounted to (pounds)62,500 (2003: (pounds)62,500), all of which was paid in the relevant year.

During the year Duncan Property Investments Limited provided loans of (pounds)190,000 to Blease Medical Equipment Limited, and (pounds)240,883 to Blease Medical Holdings Limited. Interest is payable at a rate of 12% per annum on the loans.

During the year Mr A J D Ferguson, together with his wife, provided a loan of (pounds)135,000 to Blease Medical Holdings Limited. Interest is payable at a rate of 12% per annum on the loan.

During the year Mr J E Everitt provided a loan of (pounds)882 to Blease Medical Holdings Limited. Interest is payable at a rate of 12% per annum on the loan.

PART 6 -- UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP

The unaudited pro forma statement of net assets of the Group is provided for illustrative purposes only to show the effect on the balance sheet of the Group had the Placing occurred on 30 June 2005. It has been compiled on the basis described below from the balance sheet of the Group as at 30 June 2005 as set out in Part 3 of this document. Due to its nature, the pro forma statement of net assets may not give a true picture of the financial position of the Group and is designed to give only an indication of the net assets of the Group.

	30 JUNE 2005 GROUP US$'000	ADJUSTMENT US$'000	PRO FORMA GROUP US$'000
FIXED ASSETS			
Intangible fixed assets	19,052		19,052
Tangible fixed assets	7,068		7,068
Goodwill	5,853		5,853
Investments	1,006		1,006
	32,979		32,979
CURRENT ASSETS			
Inventory	38,205		38,205
Debtors	44,110		44,110
Cash at bank and in hand	7,875	20,000	27,875
Other	8,092		8,092
	98,282	20,000	118,282
CREDITORS: amounts falling due within one year	59,220		59,220
NET CURRENT ASSETS/(LIABILITIES)	39,062	20,000	59,062
TOTAL ASSETS LESS CURRENT LIABILITIES	72,041	20,000	92,041
CREDITORS: amounts falling due after one year	59,971	(45,000)	14,971
NET ASSETS	12,070	65,000	77,070

Notes:

1. Financial information relating to the Group has been extracted, without adjustment, from the audited combined balance sheet of Spacelabs Medical, Inc. and related companies as at 30 June 2005, which is included in the accountants' report set out in Part 3 of this document.

2. The adjustment reflects the gross proceeds of US$70 million, less estimated expenses of US$5 million, receivable by the Company. The adjustment reflects the Director's intention to utilise US$45 million of the net cash received of US$65 million to repay the inter-company loan from OSI Systems.

3. No adjustment has been made to reflect any trading or changes in working capital since 30 June 2005.

PART 7 -- ADDITIONAL INFORMATION

1. RESPONSIBILITY STATEMENT

The Directors, whose names appear on page 3 of this document, accept responsibility for the information in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INCORPORATION AND PRINCIPAL ACTIVITIES

2.1 The Company was incorporated on August 2, 2005, under the laws of the State of Delaware, US with charter number 4009030 under the name "Spacelabs Healthcare, Inc."

2.2 The principal place of business of the Company is 5150 220th Avenue SE, Issaquah, Washington 98029 USA.

2.3 The liability of the members of the Company is limited.

2.4 The Company, which is the parent company of the Group, has the following subsidiaries:

NAME OF COMPANY	COUNTRY OF REGISTRATION OR INCORPORATION	TYPE OF SHARES HELD	PROPORTION OF VOTING RIGHTS AND SHARES HELD	NATURE OF BUSINESS
Blease Medical Holding Ltd.+ ("BMH")	UK	Ordinary and A and B Preferred	100%	Holding company
Blease Medical Equipment Limited ("BME")	UK	Ordinary	100% indirectly (BMH owns 100%)	Design, manufacture, sale and service of anaesthesia systems to the UK and export markets
Blease Medical Services Limited	UK	Ordinary	100% indirectly (BMH owns 100%)	Dormant company
Dolphin Medical, Inc. ("DM")	USA	Common	89%	Medical equipment manufacturing and distribution
Dolphin Medical Pte. Ltd.+	Singapore	Ordinary	89% (100% owned by DM)	Traders and manufacturer of medical equipment
Dolphin Merger Corporation	USA	Common	100%	Dormant company
Osteometer Meditech, Inc.	USA	Common	100%	Medical equipment manufacturing and distribution
Spacelabs Healthcare Solution Pvt. Ltd.	India	Equity	100%	Medical equipment manufacturing and distribution
Spacelabs Medical, Inc.	USA	Common	100%	Medical equipment manufacturing and distribution
Spacelabs Medical (Canada), Inc.+	Canada	Common	100%	Supplies patient monitoring systems and related medical equipment
Spacelabs Medical Finland, Oy+	Finland	Ordinary	100%	Supplies patient monitoring systems and related medical equipment
Spacelabs Medical Germany+ GmbH	Germany	Ordinary	100%	Supplies patient monitoring systems and related medical equipment

NAME OF COMPANY	COUNTRY OF REGISTRATION OR INCORPORATION	TYPE OF SHARES HELD	PROPORTION OF VOTING RIGHTS AND SHARES HELD	NATURE OF BUSINESS
Spacelabs Medical SAS+	France	Ordinary	100%	Supplies patient monitoring systems and related medical equipment
Spacelabs (Singapore) Pte. Ltd.+	Singapore	Common	100%	Supplies patient monitoring systems and related medical equipment
Spacelabs Medical Trading+ (Shanghai) Co., Ltd.	China	Ordinary	100%	Supplies patient monitoring systems and related medical equipment
Spacelabs Medical UK Ltd.+	UK	Ordinary	100%	Supplies patient monitoring systems and related medical equipment

\+ The formalities relating to the transfer of the shares of the companies indicated above have not been completed at the date hereof. The Company, OSI and UDT Sensors are obligated to procure the completion of the formalities as soon as practicable following Admission pursuant to the Stock Transfer Agreement (details of which are set out at paragraph 3.3 of this Part 7). Prior to such completion, these shares are held beneficially only by the Company.

3. SHARE CAPITAL OF THE COMPANY

3.1 The Directors are authorised to issue 250,000,000 Shares of Common Stock with a par value of US$.001 per share and 10,000 shares of preferred stock with a par value of US$.001 per share.

3.2 On 16 September 2005 the Company issued 1,000 Shares of Common Stock to OSI Systems.

3.3 On o 2005 the Company entered into a stock transfer agreement ("Stock Transfer Agreement") with OSI Systems and UDT Sensors. Pursuant to this agreement the Company issued o Shares of Common Stock to OSI Systems in exchange for OSI Systems' capital contribution to the Company of the entire equity share capital of each of the following companies (save for Dolphin Medical Inc. and Dolphin Medical Pte Ltd.):

NAME OF COMPANY	NUMBER OF SHARES	TYPE OF STOCK
Blease Medical Holdings Limited	417,529	Ordinary Shares
Blease Medical Holdings Limited	45,000	A Preferred Shares
Blease Medical Holdings Limited	79,412	B Preferred Shares
Dolphin Medical Inc.	19,902,750	Common Stock
Dolphin Merger Corporation	100	Common Stock
Osteometer Meditech, Inc.	10	Common Stock
Spacelabs Healthcare Solutions Pvt Ltd.	9,500	Equity Stock
Spacelabs Medical, Inc.	90,000,000	Common Stock
Spacelabs Medical (Canada), Inc.	3,953,532	Common Shares
Spacelabs Medical Finland Oy	80	Ordinary Shares
Spacelabs Medical Germany GmbH	o	o
Spacelabs Medical SAS	2,050,000	Ordinary Shares
Spacelabs Medical UK Ltd.	14,001	Ordinary Shares
Spacelabs (Singapore) Pte. Ltd.	100,000	Common Shares

Pursuant to the Stock Transfer Agreement OSI Systems assigned the benefit of the warranties under the Blease Acquisition Agreement (further details of which are set out at paragraph 9(vii) of Part 7) to the Company and the Company agreed with OSI Systems to pay any deferred sums due to the vendors under that agreement.

The above share issue was authorised by the Directors pursuant to unanimous written consent of the Board of Directors of the Company, dated o , 2005.

Pursuant to the terms of the Stock Transfer Agreement the Company issued o Shares of Common Stock to UDT Sensors, Inc. in exchange for UDT Sensors, Inc.'s capital contribution to the Company

of 65,906,250 shares of common stock in Dolphin Medical, Inc. This issue of shares was authorised by the Directors pursuant to a unanimous written consent of the Board of Directors of the Company, dated as of o , 2005.

3.4 The Company has not issued any shares of its preferred stock as of the date of this document.

3.5 There are o options over shares of common stock in Spacelabs Medical held by various employees or directors within OSI's group (the "Medical Options").

All of the Medical Options vest over a three year period (one quarter in the first year, one quarter in the second year and the remainder in the third year) and are exercisable up until the fifth anniversary of the date of grant of the options. The exercise price for each option ranges from US$0.58 to US$1.10.

It is intended that following Admission the Medical Options will be converted into o options over Shares of Common Stock in the Company ("Conversion").

The Medical Options currently vested will remain vested following Conversion. The vesting dates and expiration dates of the converted Medical Options will remain the same following conversion.

The Directors intend that the exercise price and the number of shares of common stock under the Medical Options will be converted using a Conversion ratio of o : o (subject to adjustment to ensure that the converted options have the same value as the existing options).

4. CERTIFICATE OF INCORPORATION AND BY-LAWS

4.1 Certificate of Incorporation

(a) The purpose of the Company is to engage in any lawful act or activity for which corporations may be organised under the General Corporation Law of the State of Delaware USA.

(b) The Company is authorised to issue 250,000,000 Shares of Common Stock with a par value of US$.001 per share and 10,000 shares of preferred stock with a par value of US$.001 per share.

(c) The Directors are expressly authorised to make, alter or repeal the by-laws of the Company.

(d) In all elections of Directors, each stockholder is entitled to as many votes as shall be equal to the number of shares held by such stockholder multiplied by the number of Directors to be elected, and such stockholder may cast all of such votes for a single Director or may distribute them among the number to be voted for, or any two or more of them, as such stockholder may see fit, which right, when exercised, is called "cumulative voting."

(e) Any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting only if eighty percent (80%) or more of the voting power of the stockholders entitled to vote thereon consent thereto in writing.

(f) Whenever a compromise or arrangement is proposed between the Company and its creditors or any class of them, and/or between the Company and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Company or of any creditor or stockholder thereof, or on the application of any receivers appointed for the Company under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Company, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Company, as the case may be, agree to any compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Company, as the case may be, and also on the Company.

4.2 By-laws

The By-laws, which were adopted by the Directors of the Company pursuant to a unanimous written consent of the Board dated o October, 2005, contain provisions, inter alia, to the following effect:

(a) Voting Rights

Each holder of Shares of Common Stock shall be entitled to one (1) vote for each Share of Common Stock held by such holder of Shares of Common Stock. The Company has not issued any shares of preferred stock as of the date of this document. Except as otherwise provided by law, only persons in whose names shares entitled to vote stand on the stock records of the Company on the record date for determining the stockholders entitled to vote at a meeting shall be entitled to vote at such meeting.

At all meetings of stockholders except where otherwise provided by law, the Certificate of Incorporation or the by-laws, the presence, in person or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. Except as otherwise provided by law, the Certificate of Incorporation or these by-laws, all action taken by the holders of a majority of the voting power represented at any meeting at which a quorum is present shall be valid and binding upon the corporation.

(b) Alteration of Stockholders Rights

Stockholders rights may be altered by amendment to the Certificate of Incorporation. The Certificate of Incorporation is amended by (i) adoption of such amendment by the Board of Directors followed by (ii) the approval of the requisite percentage of the stockholders at a meeting (which is generally a majority of the issued and outstanding shares entitled to vote on such amendment).

(c) Amendments to By-laws

The By-laws may be repealed, altered or amended or new By-laws of the Company adopted at any meeting of the stockholders, either annual or special, by the affirmative vote of a majority of the stock entitled to vote at such meeting, unless a larger vote is required by the By-laws or the certificate of incorporation of the Company. The By-laws (other than a By-laws changing the authorised number of directors) also may be adopted, amended, or repealed by the Directors.

(d) Transfer of Stock

Transfers of stock must be made in accordance with all United States local, state, federal and foreign securities laws governing such transfers, as applicable.

(e) Directors

The powers of the Company shall be exercised, its business conducted and its property controlled by or under the direction of the Directors.

The number of Directors which shall constitute the whole Board of Directors shall be seven (7). The Board of Directors shall be divided into three classes: Class I, Class II and Class III. The number of Directors in each class shall be as nearly equal as possible. At the first election of Directors by the Incorporator, the Incorporator shall elect a Class III Director for a term expiring at the Company's third Annual Meeting of Stockholders. The Class III Director shall then elect additional Class I, Class II and Class III Directors. The Directors in Class I shall be elected for a term expiring at the first annual meeting of stockholders, the Directors in Class II shall be elected for a term expiring at the second annual meeting of stockholders and the Directors in Class III shall be elected for a term expiring at the third annual meeting of stockholders. Commencing at the first annual meeting of stockholders, and at each annual meeting thereafter, Directors elected to succeed those Directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. All Directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified. As provided in the Certificate of Incorporation, at all elections of Directors, each stockholder having the right to vote shall be entitled to as many votes as the number of shares so held by such stockholder of record multiplied by the number of Directors to be elected, and such stockholder may cast all of such votes for a single Director, or may distribute them among any two or more of the Directors to be voted for, as such stockholder may see fit.

Vacancies and newly created directorships resulting from any increase in the authorised number of Directors may be filled by a majority of the Directors then in office (even if less than a quorum) or by a sole remaining Director, and each Director so elected shall hold office for the unexpired portion of the term of the Director whose place became vacant and until such Director's successor shall have

been duly elected and qualified. A vacancy in the Board of Directors shall be deemed to exist in the case of the death, removal or resignation of any Director, or if the stockholders fail at any meeting of stockholders at which Directors are to be elected to elect the number of Directors then constituting the whole Board of Directors.

(f) New issues of stock

Unless determined by stockholders holding 75 per cent. of the then outstanding shares of stock of the corporation, any issue of new securities for cash shall first be offered to existing holders of stock on a pre-emptive basis pro rata to existing holdings. Any issue of stock which (i) carries rights to participate only up to a specified amount in a distribution; (ii) which is held or allotted pursuant to an employee stock option scheme; or (iii) is a right to subscribe for such stock referred to in (i) and (ii), shall not be subject to such pre-emption rights. The pre-emption provisions also do not apply to securities allotted for cash where the nominal amount of such stock during any 12 month period does not exceed in aggregate 20 per cent. of the outstanding shares of stock of the corporation, or to the allotment in connection with a rights issue.

(g) Takeover provisions

In the event that (i) any person acquires securities in the Company that (taken with securities held or acquired by persons acting in concert with him) represent 30 per cent. or more of the voting rights attaching to the Company's stock; or (ii) any person who, together with persons acting in concert with holds not less than 30 per cent. nor more than 50 per cent. of the voting rights attaching to the Company's stock, then such person (and any person acting in concert) is required to extend an offer to the holders of all issued and outstanding capital stock of the corporation. Such offer must be conditional only on the offeror having received acceptances in respect of securities which together with securities already held or acquired by him (and any persons acting in concert with him) represent more than 50 per cent. of the voting rights attaching to the Company's stock. The offer must be in cash (or have a cash alternative) at not less than the highest price paid by the offeror for capital stock during the period following an announcement of a proposed or possible offer and the 12 months prior to such period.

The requirement to make a mandatory offer may be waived with the consent of holders of 75 per cent. of the voting rights attaching to the Company's securities who are not the acquirer or proposed allottee. In the event that the acquirer or proposed allottee of the relevant securities is a person that has (either alone or with connected persons) previously held 50 per cent. or more of the voting rights then:

(a) the requirement to make a mandatory offer referred to at (i) above may be waived by certain of the non-executive directors of the Company; and

(b) the requirement to make a mandatory offer referred to in (ii) above will not apply.

The requirement to make a mandatory offer ceases to apply as soon as any securities of the Company become listed on a US national securities exchange or NASDAQ or as soon as the Company becomes a reporting company under the US Securities Exchange Act of 1934.

(h) Annual Meetings

The annual meetings of the stockholders of the corporation, for the purpose of election of Directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors, or, if not so designated, then at 10:00 a.m. on November 15 in each year if not a legal holiday, and, if a legal holiday, at the same hour and place on the next succeeding day not a holiday.

(i) Indemnity

Each person who was or is a party, or is threatened to be made a party to, or is involved in any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative by reason of the fact that he, or a person of whom he is the legal representative, is or was a Director, officer, employee, or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee, or agent of another corporation or of a partnership, joint venture, trust, or other enterprise, including service with respect to employee benefit plans, whether the basis of the proceeding is alleged action in an official capacity as a director, officer, employee, or agent or in any other capacity while serving as a director, officer, employee, or agent, shall be indemnified and held harmless by the Company to the fullest extent authorized by the Delaware General Corporation Law against all expenses, liability, and loss reasonably incurred or suffered by such person in connection with investigating, defending, being a witness in, or participating in (including on appeal), or preparing for any of the foregoing in, any proceeding.

5. 2005 EQUITY PARTICIPATION PLAN OF THE COMPANY

5.1 Adoption

The Directors adopted the 2005 Equity Participation Plan of the Company (the "Plan") pursuant to a unanimous written consent of the Board, dated 16 September, 2005. The Plan is effective as of 16 September, 2005, and is administered by the Governance and Remuneration Committee appointed by the Directors (the "Administrator").

5.2 Participation

Every person who, at the date of grant of a stock option under the Plan ("Option") and/or the issuance of restricted Company common stock ("Restricted Stock") under the Plan, is an employee of the Company or of any Affiliate (as defined in the Plan) of the Company is eligible to receive nonqualified options ("NQO"), incentive stock options and/or Restricted Stock under the Plan. Every person who, at the date of grant, is a consultant to, or non-employee director of, the Company or any Affiliate of the Company is eligible to receive NQOs and/or Restricted Stock under the Plan.

5.3 Awards

The total number of shares of Company common stock which may be granted as Restricted Stock and/or issued upon the exercise of Options granted pursuant to the Plan shall not exceed o shares of common stock in the aggregate (including the Medical Options to be converted into options over shares of Common Stock in the Company following Admission) as set out in paragraph 3.5 of this Part 7). This cap represents o % of the issued Shares of Common Stock or Admission and shareholder approval will be required for an increase in this cap. No eligible person shall be granted Options during any twelve-month period covering more than 1,000,000 shares.

If the stock of the Company is changed by reason of a stock split, reverse stock split, stock dividend, or recapitalisation, combination or recapitalisation, appropriate adjustments shall be made by the Administrator in (a) the number and class of shares of stock subject to this Plan and each Option outstanding under this Plan, and (b) the exercise price of each outstanding Option; provided, however, that the Company is not required to issue fractional shares as a result of any such adjustments. Each such adjustment is subject to approval by the Administrator in its sole discretion.

In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each option holder at least thirty (30) days prior to such proposed action. To the extent not previously exercised, all Options will terminate immediately prior to the consummation of such proposed action; provided, however, that the Administrator, in the exercise of its sole discretion, may permit exercise of any Options prior to their termination, even if such Options were not otherwise exercisable. In the event of a merger or consolidation of the Company with or into another corporation or entity in which the Company does not survive, or in the event of a sale of all or substantially all of the assets of the Company in which the stockholders of the Company receive securities of the acquiring entity or an affiliate thereof, all Options shall be assumed or equivalent options shall be substituted by the successor corporation (or other entity) or a parent or subsidiary of such successor corporation (or other entity); provided, however, that if such successor does not agree to assume the Options or to substitute equivalent options therefor, the Administrator, in the exercise of its sole discretion, may permit the exercise of any of the Options prior to consummation of such event, even if such Options were not otherwise exercisable.

Except with the express written approval of the Administrator which approval the Administrator is authorized to give only with respect to NQOs, no Option granted under this Plan shall be assignable or otherwise transferable by the optionee except by will or by the laws of descent and distribution. During the life of the optionee, an Option shall be exercisable only by the optionee.

The Plan does not limit the power of the Company to adopt such other incentive or equity participation arrangements as it may deem desirable, including, without limitation, the granting of stock options or the issuance of shares of common stock other than under the Plan.

5.4 Restricted Stock

The Administrator may grant Restricted Stock to such employees, consultants and non-employee directors, in such amounts, and subject to such terms and conditions as the Administrator may determine in its sole discretion, including such restrictions on transferability and other restrictions as the Administrator may impose, which restrictions may lapse separately or in combination at such times, under such circumstances, in such instalments, or otherwise, as the Administrator shall determine. The Administrator shall, in its sole discretion, determine the purchase price, if any, and form of payment for Restricted Stock.

6. DIRECTORS

INTERESTS IN THE COMMON STOCK AND PREFERRED STOCK OF THE COMPANY

6.1 Save as disclosed herein, no Director (nor any member of his immediate family nor any person connected with any of them) has any interest, beneficial or non-beneficial, in the Common Stock or preferred stock of the Company.

6.2 There is no director or member of a Director's family who has a related financial product (as defined in the AIM Rules) referenced to the Shares of Common Stock or preferred stock.

DIRECTORSHIPS

6.3 The Directors currently hold the following directorships (other than in Group companies) and have held the following directorships within the five years prior to the publication of this document:

NAME	CURRENT	PAST
Deepak Chopra	Advanced Micro Electronics AS	
	Aristo Medical Products, Inc.	
	Centro Vision	
	Corrigan Canada, Ltd.	
	Dolphin Medical Pte. Ltd.	
	Dolphin Medical, Inc.	
	Ferson Technologies, Inc.	
	Rapiscan Systems Oy	
	Metorex Security Products, Inc. (US)	
	OSI Systems Pvt. Ltd.	
	Opto Sensors (Malaysia) Sdn, Bhd.	
	Opto Sensors (Singapore) Pte, Ltd.	
	OSI Electronics, Inc.	
	OSI Fibercomm, Inc.	
	OSI Systems, Inc.	
	Osteometer Meditech, Inc.	
	Rapiscan Security Products, Inc.	
	Rapiscan Systems Limited	
	Rapiscan Security Products (U.S.A.), Inc.	
	Rapiscan Systems Hong Kong Limited	
	Rapiscan Systems, Inc.	
	Rapiscan Systems Holdings, Inc.	
	Rapitec, Inc.	
	Spacelabs Medical, Inc.	
	Spacelabs Medical UK Ltd.	
	UDT Sensors, Inc.	
Nikhil Mehta	Blease Medical Holdings	
	Blease Medical Equipment Ltd.	
	Blease Medical Services Ltd.	
Ralph Hunter	Spacelabs Medical (Canada) Inc.	
	Spacelabs Medical Finland Oy	
	Dolphin Merger Corporation	

NAME	CURRENT	PAST
Meyer Luskin	OSI Systems, Inc.	Scope Industries Inc
	Scope Industries Inc	Myricom
	Myricom	Alerion Biomedical
	Alerion Biomedical	Stamet
	Stamet	Chromagen
	Chromagen	Santa Monica UCLA Hospital
	Santa Monica - UCLA Hospital	
Steve Good	OSI Systems, Inc.	None
	Big Dog Holdings, Inc.	
	Arden Realty, Inc.	
	Kayne Anderson MLG investment Co.	
	Kayne Anderson Energy Total Return Fund	
	California Pizza Kitchen	
Sir John	Amvescap PLC	Whitbread PLC
Michael	Merchants Trust PLC	Kingfisher PLC
Middlecott	ECI Ventures LLP	Geest PLC
Banham	Cyclacel Ltd	Cyclacel Limited
George	Eschmann Holdings Ltd,	Smiths Industries PLC
MacDonald	Vernalis PLC,	
Kennedy	Carclo PLC,	
	Isotron PLC,	
	E2V Technologies PLC,	
	Inprint Labels Ltd	

Steve Good is also a senior partner in the firm Good Swartz Brown & Berns.

6.4 Save as set out in paragraph 6.3 above, none of the Directors:

(i) has any unspent convictions in relation to any indictable offence;

(ii) had a bankruptcy order made against him or entered into any individual voluntary arrangements;

(iii) has been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) and no Director has been disqualified by a court from acting as a director or from acting in the management or conduct of affairs of a company;

(iv) was a director of any company at the time of, or in the twelve months preceding, any compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, or any receivership over any asset of such company; or

(v) has had any asset belonging to him placed in receivership or been a partner of a partnership whose assets have been placed in receivership whilst he was a partner at the time of, or within twelve months preceding, such receivership;

(vi) save as disclosed in this document, no Director is or has been interested in any transactions which is or was unusual in its nature, or significant in relation to the business of the Group and which was effected by the Group and remains in any respect outstanding or underperformed;

(vii) no loans or guarantees have been granted or provided to, of for the benefit of, any of the Directors and which have not been repaid, or released as at the date of this document; or

(viii) has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

Save for the directorships in OSI held by Deepak Chopra, Steve Good and Meyer Luskin and the stock options held by these individuals and Nikhil Mehta and Ralph Hunter in OSI, there are no potential conflicts of the duties owed by the Directors to the Company and their respective private interests.

6.5 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors.

6.6 As of the date of this document, the Directors hold the following options to purchase common shares pursuant to the Plan:

(a) OPTION HOLDER	EXERCISE PRICE PER SHARE	DATE OF GRANT	DATE FIRST EXERCISABLE	DATE OF EXPIRATION	NUMBER OF SHARES UNDER OPTION
Sir John Michael Middlecott Banham	o	o	o	o	50,000
George MacDonald Kennedy	o	o	o	o	50,000
Deepak Chopra	--	--	--	--	nil
Ralph Hunter	--	--	--	--	nil
Nikhil Atul Mehta	--	--	--	--	nil
Steve Good	--	--	--	--	nil
Meyer Luskin	--	--	--	--	nil

As at the date of this document, the Directors held the following options to purchase common shares of Spacelabs Medical which it is intended, following Admission, will be converted into options to purchase Shares of Common Stock of the Company*:

(b) OPTION HOLDER	EXERCISE PRICE PER SHARE	DATE OF GRANT	DATE FIRST EXERCISABLE	DATE OF EXPIRATION	NUMBER OF SHARES UNDER OPTION
Deepak Chopra	US$0.62	26 October 2004	26 October 2005	26 October 2009	800,000
	US$1.10	11 July 2005	11 July 2006	11 July 2010	500,000
Ralph Hunter	US$0.58	1 April 2004	1 April 2005	1 April 2009	180,000
	US$0.72	8 December 2004	8 December 2005	8 December 2009	120,000
	US$0.95	5 April 2005	5 April 2006	5 April 2010	75,000
Nikhil Atul Mehta	US$0.58	1 April 2004	1 April 2005	1 April 2009	125,000
	US$0.95	5 April 2005	5 April 2006	5 April 2010	100,000
Steve Good	US$0.62	26 October 2004	26 October 2005	26 October 2009	100,000
	US$1.10	11 July 2005	11 July 2006	11 July 2010	50,000
Meyer Luskin	US$0.62	26 October 2004	26 October 2005	26 October 2009	100,000
	US$1.10	11 July 2005	11 July 2006	11 July 2010	50,000

* Further details of the Conversion are set out in paragraph 3.5 of Part 7.

6.7 Except as disclosed above, none of the Directors (nor any member of his immediate family nor any person connected with any of them) has any interest, beneficial or non-beneficial, in the Common Stock or Preferred Stock of the Company.

7. SUBSTANTIAL SHAREHOLDERS

7.1 The Directors are aware of the following persons who as at o October 2005 (being the most recent practicable date prior to the publication of this document), were interested, directly or indirectly in 3 per cent o or more of the Company's share capital:

NAME	NUMBER OF SHARES OF COMMON STOCK	PERCENTAGE OF ISSUED SHARE CAPITAL
OSI Systems	o	o %
UDT Sensors	o	o %
		100%

7.2 The Directors are further aware of the following interests which will amount to 3 per cent or more of the issued share capital of the Company immediately following Admission:

NAME	NUMBER OF SHARES OF COMMON STOCK	PERCENTAGE OF ISSUED SHARE CAPITAL
OSI Systems	o	o
UDT Sensors	o	o
		65%

7.3 As far as the Directors are aware, there are no arrangements relating to the Group the operation of which may at a subsequent date result in a change of control of the Company.

7.4 As far as the Directors are aware, no substantial shareholders will have different voting rights to other shareholders in the company.

7.5 The Company, following Admission, will be 65% owned by OSI Systems and UDT who will hold a controlling interest.

8. DIRECTORS' SERVICE AGREEMENTS/LETTERS OF APPOINTMENT

8.1 SIR JOHN MICHAEL BANHAM

Sir John Banham was appointed pursuant to a letter of appointment with the Company dated o 2005 for an initial term of 1 year thereafter terminable on 12 months' rolling notice. Fees currently payable are (pounds)35,000 per annum and a further (pounds)15,000 per annum after the first year payable in options over Shares of Common Stock. Pursuant to his letter of appointment Sir John Banham has been granted options over 50,000 Shares of Common Stock.

8.2 GEORGE MACDONALD KENNEDY

George Kennedy was appointed pursuant to a letter of appointment with the Company dated o 2005 for an initial term of 1 year thereafter terminable on 12 months' rolling notice. Fees currently payable are (pounds)30,000 per annum and a further (pounds)15,000 per annum after the first year payable in options over Shares of Common Stock. Pursuant to his letter of appointment George Kennedy has been granted options over 50,000 Shares of Common Stock.

8.3 DEEPAK CHOPRA

Deepak Chopra is engaged pursuant to a letter of appointment with OSI Systems dated 18 July 2005 (as amended by a side letter between Mr. Chopra, OSI and the Company on o 2005) as the Chief Executive Officer and President of OSI and Chief Executive Officer of the Company. The term of the agreement is for the later of either the fifth anniversary of execution or upon the close of business 3 years following the date on which either party notifies the other in writing that the notifying party elects to end the term of employment. Pursuant to the side letter, the Company will pay Deepak Chopra a maximum of US$237,500 and a maximum of US$427,500 per annum (to be determined based on the allocation of his time between OSI and the Company). In addition to a bonus payable at the discretion of the Board. Shares of Common Stock may be awarded at the discretion of the Board pursuant to the Company 2005 Equity Participation Plan.

8.4 RALPH HUNTER

Ralph Hunter is party to a service agreement with the Company dated o

2005. Under the agreement Ralph Hunter is paid US$178,725 per annum in addition to a bonus payable at the discretion of the Board. Shares of Common Stock may be awarded at the discretion of the Board pursuant to the Company 2005 Equity Participation Plan. The agreement is for a term of 1 year continuing thereafter until terminated by either party upon immediate notice.

8.5 NIKHIL ATUL MEHTA

Nikhil Atul Mehta is engaged pursuant to a letter of appointment with OSI Systems dated 11 July 2005 as the Vice President of Business Development. On o October 2005 the agreement was transferred to the Company. Nikhil Mehta is paid US$175,000 per annum in addition to a bonus payable at the discretion of the Board. Shares of Common Stock may be awarded at the discretion of the Board pursuant to the Company 2005 Equity Participation Plan. The agreement is for a term of 1 year continuing thereafter until terminated by either party on immediate notice

8.6 MEYER LUSKIN

Meyer Luskin was appointed pursuant to a letter of appointment with the Company dated o 2005 for an initial term of 1 year thereafter terminable on 12 months' rolling notice. Fees currently payable are US$20,000 per annum. Meyer Luskin has been granted options over 50,000 shares of common stock in Spacelabs Medical pursuant to the 2004 Spacelabs Medical stock option plan which are intended to be converted into options over Shares of Common Stock (as set out in paragraph 3.5 of this Part 7).

8.7 STEVE GOOD

Steve Good was appointed pursuant to a letter of appointment with the Company dated o 2005 for an initial term of 1 year thereafter terminable on 12 months' rolling notice. Fees currently payable are US$20,000 per annum. Steve Good has been granted options over shares of common stock in Spacelabs Medical pursuant to the 2004 Spacelabs Medical stock option plan which are intended to be converted into options over Shares of Common Stock (as set out in paragraph 3.5 of this part 7).

9. MATERIAL CONTRACTS

9.1 The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the date of this document:

(i) Stock purchase and option agreement dated 10 December 2003 between Dolphin Medical, Inc. ("Dolphin Medical USA") and Conmed Corporation ("Conmed").

The agreement authorised Dolphin Medical USA to sell to Conmed 8,787,500 shares of Dolphin Medical USA's common stock for a total purchase price of US$2,000,000. This issuance took place on 11 December 2003. Pursuant to the agreement, Conmed has the option to purchase and Dolphin Medical USA is obligated to sell to Conmed all of the operating assets and business, with certain limitations, necessary to, related to, or utilised in the manufacturing of the Dolphin products for a purchase price equal to two times the sales revenue (for the year prior to the exercise of the option) from the sale of the products Dolphin Medical USA sold to Conmed plus two times all other sales revenue of Dolphin products (for the year prior to the exercise of the option). The price shall be no less than US$30,000,000 from 1 January 2004 through 31 December 2007, and US$40,000,000 from 1 January 2008 through 31 December 2008.

Notwithstanding the foregoing, if at any time during the option period, a third party makes an offer to acquire Dolphin Medical USA (by way of an asset sale, share purchase, merger or otherwise) and Dolphin Medical USA wishes to accept the offer, Conmed will have the option to purchase the business and/or assets related to the product line at a price equal to the lesser of (i) the option purchase price or (ii) the purchase price offered by the third party acquirer provided, however, if Conmed does not elect to exercise the purchase option set forth in the agreement within 30 days of the written notice, the option to purchase shall terminate.

If an unaffiliated third party purchases the business and/or assets of Dolphin Medical USA by way of an asset sale, Conmed has the right, but not the obligation, to sell to Dolphin Medical USA its purchased shares for an aggregate purchase price in an amount equal to ten percent of the net proceeds received by Dolphin Medical USA from the sale of the business and/or assets. If Conmed purchases Dolphin Medical USA's assets and business, neither Dolphin Medical USA nor any of its affiliates can sell, manufacture or market, directly or indirectly, anywhere in the world, any product that would compete with the products covered in the distribution agreement, entered into on 11 December 2003, by and between Dolphin Medical USA and Conmed, for five years after the sale with certain exceptions.

(ii) master intercompany agreement, between the Company and OSI System.

The Company entered into a master intercompany agreement, on o October 2005, with its parent company OSI Systems. The agreement provides a framework by which OSI Systems and its subsidiaries (other than the Group) may render services to the Group, and by which the may render services to OSI Systems and its other subsidiaries, such services to include (i) subleasing space to the service recipient; (ii) administrative, IT and other support services; and/or (iii) making loans, evidenced by promissory notes, to the service recipient; provided, however, that as of the date upon which OSI Systems becomes a minority stockholder of the Company, no further mutual financial support or funding shall be extended between the parties.

If the Company requires the manufacture of a product or component, or manufacturing services, the Company shall allow OSI Systems to bid on the manufacture of products, components or manufacturing services which OSI Systems or its other subsidiaries are capable

of providing. OSI Systems or its other subsidiaries shall win the bid process so long as its quote is no more than 5% in excess of the lowest quotation provided by a competitor for such product or service on comparable terms. In the event that OSI Systems' proposal meets the delivery, quality, regulatory and documentation requirements for such product or component but is more than 5% in excess of the lowest quotation, then the Company shall advise OSI Systems of the same and provide an opportunity for OSI Systems to revise its pricing in the proposal. The parties intend to adhere to the arm's length standard set forth in Section 482 of the United States Internal Revenue Code and related regulations.

The agreement provides for the Company and OSI to report taxes on a consolidated basis where permitted and details tax payment obligations as between the Company and OSI.

The agreement will terminate on 31 August 2015, and will renew automatically for successive 12-month periods unless terminated by mutual agreement of the parties in writing, or either party giving notice to the other party at least 30 days prior to the beginning of the next term. The agreement may not be assigned by either party without the prior written consent of the other party.

The agreement provides for a dispute resolution procedure whereby: (i) the parties agree to negotiate in good faith to resolve disputes, and if such negotiation does not resolve the dispute, the parties are required to appoint members of their respective senior management representatives to address the dispute, (ii) if consultation between the respective senior management representatives of the parties does not result in a resolution of the dispute, the parties are required to appoint members of their respective Boards of Directors (which have overlapping members) to consult with respect to the dispute, and (iii) all disputes remaining unresolved 30 days after the appointment of the Board of Directors' representatives may be submitted to arbitration. The agreement provides that until such time that a new credit facility (separate from the existing Facility) has been obtained by the Group from the Bank of the West or from any other bank, the Group and OSI will agree that each will only use the Facility (referred to in paragraph (iii) below) to the extent of their proportional share of the combined assets of OSI Systems (and its subsidiaries (not including the Company and its subsidiaries)) and the Group.

(iii) The Facility Agreement (the "Facility")

On 18 May 2005, OSI Systems and Bank of the West ("BOW") entered into a Second Amended and Restated Credit Agreement and an Amendment and Master Reaffirmation Security Agreement for a $50 million Senior Credit Facility (collectively, the "Amended Line"), amending OSI's pre-existing line of credit with BOW. The changes effected by the Amended Line included: (i) increase of OSI's cash borrowing limit from $20 million to $50 million; (ii) addition of multicurrency funding, up to $18 million; (iii) removal of a $10 million limit on capital expenditures; (iv) increase in OSI's acquisition purchase price limit from $15 million to $20 million; (v) research and development technology investments related to any acquisition, up to $5 million; (vi) foreign exchange facility up to $45 million; (vii) one time, non-refundable BOW's agent fee of $85,000; and (viii) Rapiscan Security Products Limited (UK) and Opto Sensors (Malaysia) were added to the list of guarantors which previously included all OSI's domestic subsidiaries.

(iv) Agreement with Equilateral

There is a letter of agreement between OSI Systems and Equilateral Limited ("Equilateral") dated 21 February 2005 pursuant to which Equilateral assists OSI Systems with, amongst other elements, the flotation of its healthcare businesses to include assistance with due diligence, negotiating terms for investments and completing the proposed transaction; and certain other related functions. Pursuant to the agreement Equilateral will be paid by the Company a fee of 1 per cent of the funds raised pursuant to the Placing payable in cash or upon Admission.

(v) Lock-in Agreements

Pursuant to agreements dated o 2005 made between Collins Stewart the Company and each of OSI and UDT Sensors, OSI and UDT Sensors agreed not to dispose of any Shares of Common Stock for a period of 12 months from Admission without the consent of Collins Stewart, and for the next following period of 12 months, not to dispose of any Shares of Common Stock other than through the Company's broker.

(vi) Agreement (the "Blease Acquisition Agreement") between OSI Systems and Andrew Ferguson & others dated 8 February 2005 for the acquisition of Blease Medical Holdings Limited ("BMH") (the parent company of the Blease group).

Pursuant to the agreement, OSI acquired the entire issued share capital of BMH for (pounds)4.5m in cash less an amount equal to certain liabilities at completion. Further contingent payments of up to (pounds)1m for each of the years ending on 30 June 2006, 2007 and 2008 are to be paid if certain targets are met in respect of non-US turnover and a further contingent sum of up to (pounds)2.25m is to be paid in respect of targets for US turnover for the years ended June 2006, 2007 and 2008. Deferred payments are to be satisfied by the issue of loan notes by OSI Systems to the vendors. Standard warranties were given by the non-institutional vendors in favour of OSI Systems and claims under such warranties can be made until August 2006.

(vii) Placing Agreement

Pursuant to a Placing Agreement entered into between the Company, the Directors, OSI Systems and Collins Stewart, Collins Stewart agreed (conditionally, inter alia, upon admission taking place not later than o 2005, or such date as Collins Stewart and the Company may agree, not being later than o), as agent for the Company, to use reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price and, failing which, to subscribe for the Placing Shares itself.

Collins Stewart has also conditionally agreed to submit an application to the London Stock Exchange and to act as the Company's nominated adviser in respect of that Application.

The Placing Agreement contains certain representation, warranties, undertakings and indemnities given by the Company, certain warranties given by the Directors and certain warranties and indemnities given by OSI, in each case in favour of Collins Stewart.

The Placing Agreement contains an indemnity from the Company in favour of Collins Stewart in respect of all changes, costs, damages, expenses, liabilities and other losses which Collins Stewart may offer in respect of the Placing and Admission.

The Company had agreed to pay to Collins Stewart (i) a corporate finance fee of (pounds)100,000 (plus any applicable VAT), (ii) a commission of an amount equal to 4 per cent. of the aggregate amount equal to the Placing Price multiplied by the number of Placing Shares placed; and (iii) an additional commission of 0.25 per cent. of such aggregate amount in the event that the market capitalisation of the Company on Admission is not less than (pounds)120 million.

The Placing Agreement contains certain provisions for the payment of other costs by the Company to include all costs, charges and expenses relating to or incidental to the Placing and/or Admission, including registrars fees, printing and advertising expenses, postage, legal, accounting and other professional fees.

The Placing Agreement contains undertakings (subject to certain exceptions) from the Directors to Collins Stewart not to dispose of any Common Stock for the period expiring 12 months from the date of Admission and thereafter for a further period of 12 months only to dispose of any Common Stock through the Company's broker on an orderly market basis.

(viii) Nominated Adviser and Broker Agreement

Under an agreement made between the Company, the Directors, OSI and Collins Stewart dated o October 2005 conditional upon Admission, Collins Stewart has agreed to act as nominated adviser and broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Collins Stewart a fee for its services as nominated adviser and broker of (pounds)40,000 per annum (excluding VAT). Either party may terminate Collins Setwart's appointment by giving to the other not less than 3 month's notice of termination, such notice not to expire before the period of twelve months from the date of Admission. The agreement contains an indemnity from the Company in respect of the services to be provided by Collins Stewart.

(ix) Relationship Agreement

The Company is party to a relationship agreement with its parent company OSI dated o October 2005 (the "Relationship Agreement"). Under the Relationship Agreement for as long as OSI (and its associates) remain a controlling shareholder ("Controlling Shareholder") (being a shareholder that is entitled to exercise or to control the exercise of 30 per cent or more of the rights to vote at general meetings of the Company) OSI shall (and shall procure that its associates shall) so far as it is able to do so by exercising its control ensure that:

(a) the Company is capable of carrying on its business independently of OSI (and associates) and all arrangements between them are carried on an arms length basis; (b) any non-independent Director will abstain from voting on matters where the interests of both parties conflict; and (c) independent directors will deal with unresolved disputes between the parties.

For as long as OSI (and its associates) remains a Controlling Shareholder OSI shall (and shall procure that its associates shall) not: (a) undertake any activity which may render the Company incapable of carrying on its business independently, or enter into any transactions and relationships between the parties which are not at arm's length or on a normal commercial basis, and (b) propose or vote in favour of any resolution amending the Certificate of Incorporation or By-laws unless such resolution is voted in favour of a majority of the independent directors of the Company or is proposed by virtue of a resolution of the Board to approve a dual listing or listing on another recognised investment exchange.

(x) Directors' Indemnity Agreement

Pursuant to an indemnification agreement dated o 2005 entered into by the Company and each of the Directors, in order to attract and retain high quality individuals the Company indemnifies each of the Directors against third party proceedings or claims by reason of the Director's service as a Director. The indemnification is subject to the Directors acting in good faith in the interests of the Company. The Directors are also indemnified in respect of proceedings in which they are joined brought by or in the right of the Company. The indemnity is subject to certain exceptions such as where a claim is already recovered under a policy insurance.

(xi) Stock Transfer Agreement

A Summary of the Stock Transfer Agreement between OSI, UDT Sensors and the Company is set out in paragraph 3.3 of this part 7.

10. LITIGATION

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the period covering the last 12 months which may have, or have had in the recent past significant effects on the Company and/or the Group's financial position or profitability.

Various lawsuits and claims are pending against the Company, including those in note 6 to the Accountant's Report on Spacelabs Medical, Inc. and Related Companies set out in Part 3 of this document which includes product liability claims which are generally covered by insurance policies. Although the outcome of such lawsuits and claims cannot be predicted with certainty, the expected disposition thereof will not in the opinion of the Board both individually and in the aggregate, result in a material adverse effect on the Company's results of operations and financial position.

11. SIGNIFICANT CHANGE

Other than as set out in this document there has been no significant change in the financial or trading position of the Group which has occurred since the end of the last financial period for which the audited financial information has been published.

12. WORKING CAPITAL

The Directors are of the opinion, having made due and careful enquiry and having taken into account the net proceeds of the Placing, that following Admission the Group will have sufficient working capital for at least the twelve months from the date of Admission.

13. TAXATION

United Kingdom

The following is general in nature and only a summary of the main UK tax consequences which are expected to apply to shareholders of the Company who are resident or ordinary resident individuals for UK tax purposes or companies which are in the UK. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of shareholders and is based on current law and practice. It should be noted that the UK tax treatment applicable to shareholders is impacted by their residence status, whether they are regarded as domiciled in the UK for tax purposes and other factors. If you are in any doubt as to your own tax position or are resident or subject to tax in a jurisdiction outside the UK, you should seek independent professional advice without delay.

(a) DIVIDENDS

The Company will not be obliged to make any withholding on account of UK tax on payment of any dividends. UK resident individuals who are domiciled in the UK will be liable to UK tax on the gross dividend paid by the Company. However, relief may be available for any US withholding tax suffered, with the proviso that the relief cannot exceed the amount of UK payable on the dividend. One exception to this general rule is that UK resident individual shareholders who are not domiciled within the UK will generally be subject to UK income tax on the dividend receipt only if the dividend is remitted to the UK. In such cases, it should be noted that advantage can be taken if the reduced rate of withholding tax under the Double Tax Treaty between the US and the UK treaty only if the dividends are remitted to the UK and therefore subject to UK tax.

UK resident companies will, where double tax relief is claimed be liable to UK tax on the gross dividend paid by the Company, subject to credit for US withholding tax deducted at source. The credit given in the UK for the US tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend.

A UK resident company may also seek relief for any underlying tax (tax borne by the Company and its subsidiaries on the profits out of which the dividend is paid) associated with the dividend where the UK company owns 10 per cent. or more of the voting rights in the Company.

As the credit given for US tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend, a UK company may, subject to satisfying the provisions within the UK Double Tax regulations, be entitled to claim credit for any excess unrelieved US tax (both withholding, and where available, underlying tax) against dividends received from other sources.

For both individuals and companies having insufficient taxable income to give rise to a UK tax charge on which relief may be obtained for the withholding tax deducted under US law, the taxpayer can elect to treat the US withholding tax as an expense to be deducted from the gross dividend so that the taxable receipt is reduced to the amount of the dividend net of withholding tax.

(b) TAXATION ON CAPITAL GAINS FOR SHAREHOLDERS

An individual, who is resident and ordinarily resident and domiciled in the UK shall be liable to capital gains tax where a gain arises on the disposal of chargeable assets situated anywhere in the world (including shares in the Company held as an investment) subject to the application of relevant reliefs and exemptions. Capital gains tax is charged at the rate equivalent to the rate of income tax applied to an individual's top slice of income. An individual who is resident and ordinarily resident but not domiciled in the UK is liable to capital gains tax on a disposal of non-UK assets (including shares in the Company held as an investment) if the proceeds of disposal are remitted to the UK. A company resident in the UK for corporation tax purposes will be liable to corporation tax in respect of gains on the disposal of shares in the Company, subject to the availability of allowance for inflation and the substantial shareholding exemption.

If a shareholder who is not resident for tax purposes in the United Kingdom disposes of all or any shares of Common Stock, he or it generally will incur no liability to United Kingdom taxation on chargeable gains. However, if any such person has previously been tax resident in the United Kingdom and resumes residence within five years of ceasing tax residence in the United Kingdom, a chargeable gain may arise from the disposal of Common Stock and be taxed in the tax year in which United Kingdom tax residence is resumed.

Non-United Kingdom tax resident shareholders may also be subject to taxation in their country of tax residence on chargeable gains (or equivalent) arising from a disposal of Common Stock.

(c) STAMP DUTY AND STAMP DUTY RESERVE TAX ("SDRT")

No UK stamp duty or SDRT will be payable on the issue of shares save that special rules may apply to persons operating clearance services or depository receipt services.

As the Company is incorporated in Delaware, USA and its share register is kept in the USA, there should be no charges to UK stamp duty or SDRT in respect of transfers of the shares of Common Stock.

The above statements are intended only as a general guide to the current tax position under UK taxation law and practice. A Shareholder who is in any doubt as to his or her tax position or is subject to tax in any jurisdiction other than the United Kingdom should consult his or her professional adviser without delay. They do not deal with the position of certain classes of Shareholders, such as dealers in securities or pension funds.

In the event that a shareholder elects to hold his shares of Common Stock in certificated form, and the Company is deemed to have a branch register located in the UK, a transfer or sale of certificated shares of Common Stock will generally be subject to ad valorem stamp duty at the rate of 0.5 per cent. rounded up to the nearest multiple of (pounds)5 or value of the consideration paid by the purchaser. If an unconditional agreement for the transfer of such shares of Common Stock is not completed by a duly stamped transfer to the transferee by the seventh day of the month following the month in which the agreement becomes unconditional, SDRT will be payable on the agreement at the rate of 0.5 per cent. of the amount or value of consideration paid. Liability to SDRT is generally that of the transferee. Where a purchase or transfer is effected through a member of the London Stock Exchange or a qualified dealer, the said member or dealer will normally account for the SDRT. Any SDRT paid will be refunded if stamp duty is duly paid within six years of agreement to sell.

When shares of Common Stock are held in certificated form, but the Company is not deemed to have a branch register located in the UK, or when instruments representing shares of Common Stock are transferred to a CREST member who holds those shares in uncertificated form as a nominee for the transferor, no stamp duty or SDRT will generally be payable providing there is no change in beneficial ownership.

When instruments representing shares are transferred by a CREST member to the beneficial owner (on whose behalf it has held them as nominee), no stamp duty or SDRT will generally be payable.

(d) INHERITANCE TAX ("IHT") RELIEF

IHT is chargeable in respect of assets on the death of, or gift by, a shareholder who is domiciled (or is deemed to be domiciled) in the United Kingdom. However , the charge to IHT is subject to various exemptions. Unquoted shares in a qualifying trading company such as the Company ordinarily qualify for 100 per cent. IHT Business Property Relief exemption provided they have been held for two years prior to the event giving rise to IHT. Shares traded on AIM are regarded as unquoted for these purposes and are therefore in principle eligible for IHT Business Property Relief (subject to the Company meeting all of the relevant qualifying conditions).

United States

The following is a general discussion of the material US federal income consequences of the ownership and disposition of shares of Common Stock by a non-US holder that acquires these shares pursuant to this offering. The discussion is based on provisions of the Internal Revenue Code of 1986 as amended, ("the Code"), applicable US Treasury regulations promulgated thereunder and administrative and judicial interpretations, all as in effect on the date of this document, and all of which are subject to change, possibly on a retroactive basis. The discussion is limited to non-US holders that hold our shares of Common Stock as a "capital asset" within the meaning of Section 1221 of the Code - generally, property held for investment. As used in this discussion, the term "non-US holder" means a beneficial owner of shares of Common Stock that is not, for US federal income tax purposes:

- an individual who is a citizen or resident of the United States;

- a corporation or partnership, including any entity treated as a corporation or partnership for

US federal income tax purposes, created or organised in or under the laws of the United States or any state of the United States or the District of Columbia, other a partnership treated as foreign under US Treasury regulations;

- an estate the income of which is includible in gross income for US federal income tax purposes regardless of its source; or

- a trust (1) if a US court is able to exercise primary supervision over the administration of the trust and one or more US persons have authority to control all substantial decisions of the trust, or (2) that has a valid election in effect under applicable US Treasury regulations to be treated as a US person.

This discussion does not consider:

- US federal gift tax consequences, or US state or local or non-U.S. tax consequences;

- specific facts and circumstances that may be relevant to a particular non-US holder's tax position, including, if the non-US holder is a partnership that the US tax consequences of holding and disposing of shares of Common Stock may be affected by certain determinations made at the partner level;

- the tax consequences for partnerships or persons who hold their interests through a partnership or other entity classified as a partnership for US federal income tax purposes;

- the tax consequences for the shareholders or beneficiaries of a non-US holder

- all of the US federal tax considerations that may be relevant to a non-US holder in light of its particular circumstances or to non-US holders that may be subject to special treatment under US federal tax laws, such as financial institutions, insurance companies, tax-exempt organisations, certain trusts, hybrid entities, certain former citizens or residents of the United States, holders subject to US federal alternative minimum tax, broker-dealers, trade in securities, pension plans and regulated investment companies; or

- special tax rules that may apply to a non-US holder that holds Shares of Common Stock as part of a "straddle," "hedge," "conversion transaction," "synthetic security," or other integrated investment.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE US FEDERAL, STATE, LOCAL, AND NON-US INCOME AND OTHER TAX CONSIDERATIONS WITH RESPECT TO OWNING AND DISPOSING OF OUR SHARES OF COMMON STOCK.

(a) DIVIDENDS

The Company does not anticipate paying dividends on its shares of Common Stock in the foreseeable future (see "Dividend Policy"). If the Company makes distributions on the shares of Common Stock, those payments will constitute dividends for US federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under US federal income tax principles. To the extent those distributions exceed the Company's current and accumulated earnings and profits, the excess will constitute a return of capital and first reduce the non-US holder's basis, but not below zero, and then will be treated as gain from the sale of stock.

The Company will have to withhold US federal income tax at a rate of 30 per cent, or a lower rate under an applicable income tax treaty, from the gross amount of the dividends paid to a non-US holder, unless the dividend is effectively connected with the conduct of a trade or business of the non-US holder within the United States or, if an income tax treaty applies, attributable to a permanent establishment or fixed base of the non-US holder within the United States. Under applicable US Treasury regulations, a non-US holder, including, in certain cases of non-US holders that are entities, the owner or owners of such entities, will be required to satisfy certain certification requirements in order to claim a reduced rate of withholding pursuant to an applicable income tax treaty Non-US holders should consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

Dividends that are effectively connected with a non-US holder's conduct of a trade or business in the United States and, if an income tax treaty applies, attributable to a permanent establishment or fixed base of the non-US holder within the United States, are taxed on a net income basis at the regular graduated US federal income tax rates in the same manner as if the non-US holder were a resident of the United States. In such cases, the Company will not have to withhold US federal income tax if the non-US holder complies with applicable certification and disclosure requirements. In addition, a "branch profits tax" may be imposed at a 30 per cent, or a lower rate under an applicable income tax treaty, on dividends received by a foreign corporation that are effectively connected with the conduct of a trade or business in the United States.

In order to claim the benefit of an income tax treaty or to claim exemption from withholding because the income is effectively connected with the conduct of a trade or business in the United States, the non-US holder must provide a property executed IRS Form W-8BEN, for treaty benefits, or W-8ECI, for effectively connected income, respectively, or such successor forms as the IRS designates prior to the payment of dividends. These forms must be periodically updated.

A non-US holder that is eligible for a reduced rate of US federal withholding tax under an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for a refund together with the required information with the IRS.

(b) GAIN ON DISPOSITION OF SHARES OF COMMON STOCK

A non-US holder generally will not be subject to US federal income tax or withholding tax with respect to gain realised on a sale or other disposition of our shares of Common Stock unless one of the following applies:

- the gain is effectively connected with the non-US holder's conduct of a trade or business in the United States and, if an income tax treaty applies, is attributable to a permanent establishment or fixed base maintained by the non-US holder in the United States; in these cases, the non-US holder will generally be taxed on its net gain derived from the disposition in the manner and at the regular graduated US federal income tax rates applicable to United States persons, as defined in the Code, and, if the non-US holder is a foreign corporation, the "branch profits tax" described above may also apply;

- the non-US holder is a non-resident alien individual who is present in the United States for 183 days or more in the taxable year of the disposition and meets certain other requirements; in this case, the non-US holder will be subject to a 30 per cent, tax on the gain derived from the disposition which may be offset by US source capital losses of the non-US holder, if any; or

- the Company's shares of Common Stock constitutes a United States real property interest by reason of our status as a "United States real property holding corporation," or a USRPHC, for US federal income tax purposes at any time during the shorter of the 5-year period ending on the date of such disposition or the period that the non-US holder held the Company's shares of Common Stock.

- However, because the determination of whether the Company are a USRPHC depends on the fair market value of the Company's United States real property interests relative to the fair market value of the Company's other business assets, there can be no assurance that the Company will not become a USRPHC in the future. As long as the Company's shares of common stock is "regularly traded on an established securities market" within the meaning of Section 897(c)(3) of the Code, however, such shares of Common Stock will be treated as United States real property interests only if a non-US holder owned directly or indirectly more than 5 per cent. of such regularly traded shares of Common Stock during the shorter of the 5-year period ending on the date of disposition or the period that the non-US holder held our shares of Common Stock and the Company were a USRPHC during such period. If the Company is or were to become a USRPHC and a non-US holder owned directly or indirectly more than 5 per cent. of the Company's shares of Common Stock during the period described above or the Company's shares of Common Stock are not "regularly traded on an established

securities market," then a non-US holder would generally be subject to US federal income tax on its net gain derived from the disposition of the Company's shares of Common Stock at the regular graduated US federal income tax rates applicable to United States persons, as defined in the Code.

(c) INFORMATION REPORTING AND BACKUP WITHHOLDING TAX

The Company must report annually to the IRS and to each non-US holder the gross amount of the distributions paid to that holder and the tax withheld from those distributions. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable income tax treaty. Copies of the information returns reporting those distributions and withholding may also be made available under the provisions of an applicable income tax treaty or agreement to the tax authorities in the country in which the non-US holder is a resident or incorporated.

Under some circumstances, US Treasury regulations require backup withholding and additional information reporting on reportable payments on Shares of Common Stock. The gross amount of dividends paid to a non-US holder that fails to certify its non-US holder status in accordance with applicable US Treasury regulations generally will be reduced by backup withholding at the applicable rate, currently 28 per cent. Dividends paid to non-US holders subject to the US withholding tax at a rate of 30 per cent., described above in "Dividends," generally will be exempt from US backup withholding.

The payment of the proceeds of the sale or other disposition of shares of Common Stock by a non-US holder effected by or through the US office of any broker, US or non-US, generally will be reported to the IRS and reduced by backup withholding unless the non-US holder either certifies its status as a non-US holder under penalties of perjury or otherwise establishes an exemption. The payment of the proceeds of the sale or other disposition of shares of Common Stock by a non-US holder effected by or through a non-US office of any broker US or non-US generally will be reported to the IRS and reduced by backup withholding, unless the non-US broker has certain enumerated connections with the United States. In general, the payment of proceeds from the disposition of shares of Common Stock effected by or through a non-US office of a broker that is a US person or has certain enumerated connections with the United States will be reported to the IRS and may be reduced by backup withholding unless the broker receives a statement from the non-US holder that certifies its status as a non-US holder under penalties of perjury or the broker has documentary evidence in its files that the holder is a non-US holder.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-US holder can be refunded or credited against the non-US holder's US federal income tax liability, if any, provided that the required information is furnished to the IRS in a timely manner. These backup withholding and information reporting rules are complex and non-US holders are urged to consult their own tax advisors regarding the application of these rules to them.

THE FOREGOING DISCUSSION OF US FEDERAL INCOME TAX CONSIDERATIONS IS NOT TAX ADVICE AND IS NOT BASED ON AN OPINION OF COUNSEL. ACCORDINGLY, EACH PROSPECTIVE NON-US HOLDER OF SHARES OF COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISOR WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND NON-US TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF SHARES OF COMMON STOCK.

14 LICENCES TECHNOLOGIES AND CONSENTS

TECHNOLOGY

The principal details of the relevant patents, trademarks and licences are described below:-TRADEMARKS -- The Business has used, registered, and applied to register certain trademarks and service marks to distinguish its products, technologies and services from those of its competitors in the US and in foreign countries. The Group enforces its trademark, service mark, and trade name rights in the US and abroad.

PATENTS -- The Business holds a number of US and foreign patents relating to various aspects of its medical imaging and monitoring systems. The Group's current patents will expire at various times between 2006 and 2021.

LICENSES -- In December 1998, as part of the settlement of certain litigation, OSI and Lunar Corporation ("Lunar") entered into a license agreement pursuant to which OSI was granted a fully paid up worldwide, non-exclusive license under US Patent Nos. 4,626,688 (the "688 patent") and 5,138,167 (the "167 patent") in the non-medical field. Prior to the acquisition of Osteometer in September 1998, Osteometer had also been involved in litigation with Lunar regarding the 688 and 167 patents. In December 1998, the parties to this litigation entered into a settlement agreement. As a part of the settlement, the parties entered into a license agreement pursuant to which Osteometer was granted a worldwide, non-exclusive license under the 688 and 167 patents for certain bone densitometers. The Group makes royalty payments on sales of the licensed products.

The Group's products have generally received section 510(k) approvals from the US Food and Drug Administration, (part of the US Department of Health and Human Services) in respect of its sales in the United States.

15. PROPERTIES

The following table lists the principal physical properties occupied by Spacelabs Healthcare as at 30 June 2005:

LOCATION	DESCRIPTION OF FACILITY	EXPIRATION OF LEASE
Hawthorne, California, US	Manufacturing, engineering, sales and marketing and service for Dolphin Medical and the Osteometer businesses. Marketing and engineering for Dolphin Medical pulse Oximetry business. Shared with OSI	2006
Issaquah, Washington, US	Manufacturing, engineering, sales and marketing and service for the medical monitoring systems group	2014
Secunderabad, India	Manufacturing and engineering for pulse oximetry products and engineering for monitoring products. Shared with OSI	2005
Chesham, UK	Manufacturing, engineering, sales and marketing for the medical monitoring and anaesthesia systems group	2006-2009
Salford, UK	Pan-European logistics centre. Shared with OSI	2009-2011

16. OTHER INFORMATION

16.1 There are no arrangements in force for the waiver of future dividends.

16.2 There are no specific dates on which entitlement to dividends or interest thereon on Shares of Common Stock or the preferred stock arises.

16.3 The total costs and expenses payable by the Company in connection with or incidental to the Placing and Admission (including professional fees, printing, advertising costs and commissions payable under the Placing) are estimated to be approximately (pounds) o excluding VAT. The gross proceeds expected to be raised by the Placing are (pounds) o and the net proceeds of the Placing (after expenses and excluding VAT) are estimated to be (pounds)o.

16.4 Definitive share certificates in registered form for the Placing Shares are expected to be despatched by o 2005.

16.5 The Placing Price of (pounds) o per Placing Share is at a premium of o pence for each Share of Common Stock above the nominal value of each such shares.

16.6 Deloitte & Touche LLP, London, UK has given and not withdrawn its written consent to the issue of this document with the inclusion of the Accountant's Reports in Parts 3 and 4 of this document and the references to the report and to its name in the form and context in which they are included.

16.7 Collins Stewart has given and not withdrawn its written consent to the issue of this document with references to its name in the form and context in which such references are included.

16.8 The accounting reference date of the Company is 30 June 2005

16.9 The Company's auditors are Deloitte & Touche LLP, Seattle, USA.

16.10 Except as disclosed in this document, as far as the Directors are aware:

(a) there are no patents, licences or commercial contracts or new manufacturing processes which are material to the Group's business as currently conducted or profitability;

(b) there are no environmental issues that may affect the issuer's utilisation of its tangible fixed assets;

(c) there are no known trends, uncertainties, demands or events that are reasonably likely to have a material adverse effect on the Group's prospects for at least the current financial year; and

(d) there are no exceptional factors that have influenced the Company's activities.

16.11 The Company complies with relevant US state corporate governance requirements.

16.12 The International Security Identification Number for the Shares of Common Stock is o

16.13 As at 30 June 2005 the group employed approximately 1,050 full-time employees.

16.14 Except as disclosed in this document, as far as the Directors are aware, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, from the Company in the twelve months prior to the application for Admission or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company after Admission:

(i) fees totalling (pounds)10,000 or more;

(ii) securities in the Company with a value of (pounds)10,000; or

(iii) any other benefit with a value of (pounds)10,000 or more at the date of Admission.

16.15 Save as disclosed in this document, the Company has no principal investments for the financial year covered by the historic financial information in this document and there are no principal investments in progress and there are no principal future investments on which the board has made a firm financial commitment.

17. US SECURITIES LAW AND TRANSFER RESTRICTIONS

Regulation S promulgated under the US Securities Act governs offers and sales of securities made outside of the United States. The Placing Shares have not been and will not be registered under the US Securities Act or under the relevant securities laws of any state of the United States or any other jurisdiction. The Placing Shares may not be directly or indirectly offered, sold, resold or otherwise transferred within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S), or in any country where to do so may contravene local securities laws or regulations and may not be acquired by any US person in any resale transactions, except in accordance with Regulation S or pursuant to registration, or an exemption therefrom, under the US Securities Act. In addition, hedging transactions with regard to the Placing Shares may only be conducted in accordance with the US Securities Act.

The above restrictions preclude purchasers of the Placing Shares from reselling the Placing Shares in the US or to a US person until the expiration of a period of one year following the placing.

The Placing Shares have not been approved or disapproved by the Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed on or endorsed the merits of the Placing or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

US Transfer Restrictions

No actions have been taken to register or qualify the Placing Shares offered hereby or otherwise permit a public offering of the Placing Shares offered hereby in any jurisdiction other than the United Kingdom. The Placing Shares are being offered outside of the United States pursuant to Regulation S promulgated under the US Securities Act. The Placing Shares offered hereby have not been, and will not be, registered under the US Securities Act and may not be offered, sold or resold or otherwise transferred within, or to persons in, the United States except in accordance with Regulation S, pursuant to a registration statement under the US Securities Act, or pursuant to an applicable exemption from registration under the US Securities Act. The above restrictions preclude purchasers of the Placing Shares from reselling the Placing Shares in the US or to a US person until the expiration of a period of one year following the Placing. The certificates of all Placing Shares subscribed in the Placing will bear a legend to the following effect:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR APPLICABLE STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF THE COMPANY THAT THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED BY SUCH HOLDER OTHER THAN (1) TO THE COMPANY, (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE LAWS OF ANY STATE OF THE UNITED STATES, (3) IN AN OFFSHORE TRANSACTION COMPLYING WITH REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144, IF APPLICABLE,

UNDER THE SECURITIES ACT OR (5) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT BUT IS IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS, AND IN EACH CASE IN RELATION TO WHICH THE HOLDER HAS FURNISHED TO THE COMPANY AN OPINION TO SUCH EFFECT FROM COUNSEL OF RECOGNISED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY PRIOR TO SUCH OFFER, SALE, PLEDGE OR TRANSFER. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT IT IS A NON-US PERSON, AND ACKNOWLEDGES THAT HEDGING TRANSACTIONS INVOLVING THESE SECURITIES MAY NOT BE CONDUCTED UNLESS CONDUCTED IN COMPLIANCE WITH THE SECURITIES ACT."

Collins Stewart has agreed that, (i) it will not engage in hedging transactions in relation to the Placing Shares and (ii) will comply with the provisions of Regulation S that are applicable to them.

PRIOR TO INVESTING IN THE PLACING SHARES OR CONDUCTING ANY TRANSACTIONS IN THE PLACING SHARES, INVESTORS ARE ADVISED TO CONSULT PROFESSIONAL ADVISERS AND COUNSEL REGARDING THE ABOVE RESTRICTIONS ON TRANSFER.

18. COPIES OF THIS DOCUMENT

Copies of this document will be available to the public free of charge during normal business hours on any week day (except for Saturday, Sunday and public holidays) until the date following one month after the date of Admission at the offices of Collins Stewart, 9th Floor, 88 Wood Street, London, EC2V 7QR.

Dated: o October, 2005

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